

KAR Auction Services, Inc.  
Form 10-K  
February 24, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended December 31, 2010

OR

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

Commission File Number: 001-34568

**KAR Auction Services, Inc.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-8744739  
(I.R.S. Employer  
Identification No.)

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Stock, par value \$0.01 per share

Name of each exchange on which registered  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was \$316,171,201 at June 30, 2010.

As of February 18, 2011, 135,604,691 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

### Documents Incorporated by Reference

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference herein from the registrant's Definitive Proxy Statement for its 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the registrant's fiscal year ended December 31, 2010.

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**DEFINED TERMS**

Unless otherwise indicated, the following terms used in this Annual Report on Form 10-K have the following meanings:

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

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

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

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

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

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

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 IAAI management and certain co-investors in connection with the acquisition of IAAI in 2005. Axle LLC is the former ultimate parent company of IAAI and is a holder of common equity interests in KAR LLC;

Credit Agreement refers to the Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended on June 10, 2009, October 23, 2009, November 11, 2010 and from time to time;

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;

fixed senior notes refers to KAR Auction Services' ~~3/4%~~ Senior Notes due May 1, 2014 (\$450.0 million aggregate principal amount outstanding at December 31, 2010);

floating senior notes refers to KAR Auction Services' Floating Rate Senior Notes due May 1, 2014 (\$150.0 million aggregate principal amount outstanding at December 31, 2010);

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

KAR Auction Services refers to KAR Auction Services, Inc., and not to its subsidiaries;

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

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

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

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

senior subordinated notes refers to KAR Auction Services 10% Senior Subordinated Notes due May 1, 2015 (\$131.1 million aggregate principal amount outstanding at December 31, 2010).

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**PART I**

**Item 1. Business**  
***Overview***

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 229 physical auction locations at December 31, 2010, and multiple proprietary internet venues. In 2010, we facilitated the sale of over 3.1 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers as well as by providing value-added ancillary services, including inspections, storage, transportation, reconditioning, salvage recovery, titling, and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and we do not take title or ownership to substantially all vehicles sold at our auctions.

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

At December 31, 2010, we had a network of 70 whole car auction locations and 159 salvage auction locations. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. However, many of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

***Our Corporate History***

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in April 2007 upon the consummation of the 2007 Transactions. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. ADESA remained a public company until 1995 when ALLETE purchased a majority of its outstanding equity interests. In June 2004, ALLETE sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders in September 2004. ADESA was acquired by the Company in April 2007. IAAI entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAAI was acquired by affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAAI management contributed IAAI to KAR Auction Services in connection with the 2007 Transactions. On December 16, 2009, we sold 25,000,000 shares of common stock in an initial public offering. In addition, on December 23, 2009, the underwriters of the initial public offering exercised a portion of their option to purchase additional shares, resulting in an additional 2,656,050 shares of common stock being sold.

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### *Our Industry*

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

#### *Whole Car Industry Volumes*

During the period from 1999 to 2009, approximately 9 to 10 million used vehicles per year were sold in North America through whole car auctions, declining to what we estimate to be approximately 8.4 million to 8.5 million in 2010. The number of vehicles sold at auction in North America is primarily dependent upon the total population of cars on the road as opposed to the more volatile annual new vehicle sales. Positive trends which should influence future demand for used vehicles include increases in the number of households with more than one vehicle, improvements by manufacturers that have extended vehicle lifespan and the affordability of used vehicles relative to new vehicles.

#### *Growing Salvage Auction Industry Volumes*

During the period of 2005 through 2010, we believe that the North American salvage vehicle auction industry volumes grew at an estimated compound annual growth rate of approximately 1.5%. Vehicles deemed a total loss by the insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. This trend, along with increases in miles driven and vehicles per household, has contributed to the growth in salvage vehicle volumes.

#### *Consolidated Whole Car and Salvage Auction Markets*

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA represent approximately 45% - 50% and approximately 22% of the North American whole car market, respectively, and no other whole car auction represents more than 3%. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAAI and Copart, each representing an estimated 35% to 40% of the market, and no other competitor representing more than 10%.

#### *High Barriers to Entry*

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



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### ***Our Business Strategy***

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

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

We are continuing to implement new initiatives to grow our market share in our whole car and salvage businesses. Through the coordinated efforts of ADESA and IAAI, since the 2007 Transactions, we have achieved market share and volume gains in each of these businesses by providing customers with a comprehensive offering of services that we believe increase customer value. In addition to improving market share with our institutional consignors, our other specific major initiatives for continuing to increase our market share include:

**Grow our dealer consignment business.** The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team assists the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our whole car auctions. On a same store basis, our dealer consignment sales volumes were up approximately 14% and 7% for the quarter and year ended December 31, 2010 compared to the same periods in 2009.

**Grow our non-insurance salvage auction customer base.** More than 12 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of the total unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers, which includes charitable organizations, rental car, captive finance and fleet companies. ADESA's strong customer relationships with used vehicle dealers as well as rental car, captive finance and fleet companies provide an advantage in accessing these segments as these customers already use ADESA's whole car auction services.

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

#### ***Use Excess Cash Flow to Reduce Debt***

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. We generated \$467.6 million (\$318.7 million excluding the impact of the change in accounting for the securitization) and \$250.8 million of cash flow from operations for the years ended December 31, 2010 and 2009, respectively. Management plans to utilize a significant portion of excess cash generated by the business for debt reduction for the foreseeable future.

#### ***Continue to Grow Revenue per Vehicle***

From 2005 through 2010, we grew our whole car and salvage revenue per vehicle at compound annual growth rates of 5.5% and 2.9%, respectively. Increased utilization of ancillary services, selective fee increases

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and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. Wholecar revenue per vehicle generally consists of auction fees and fees from ancillary services. We plan to grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions.

### *Expand Opportunities for Customers to Buy and Sell Online*

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

### *Leverage AFC's Products and Services at ADESA and IAAI*

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

### *Continue to Improve Operating Efficiency*

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. We successfully implemented IAAI's standard processes and technology systems at 28 sites previously operated by ADESA and 14 salvage sites acquired since the 2007 Transactions, streamlining operations and improving operating efficiencies. As a result of these actions, IAAI has achieved gross margin expansion over the last three fiscal years. Subsequent to the 2007 Transactions, ADESA implemented Project PRIDE, an initiative to identify best practices at its whole car auction sites, standardize auction operating processes and improve efficiency in the delivery of services. We introduced a management operating system to actively monitor and manage staffing levels in conjunction with Project PRIDE and have begun to realize significant labor efficiency gains.

Similar to Project PRIDE, IAAI launched an initiative in the first quarter of 2010 to identify best practices at its salvage auction sites, standardize auction operating processes and improve efficiency in the delivery of services. We introduced a management operating system to actively monitor and manage staffing levels in conjunction with the initiative and have begun to realize labor efficiency gains.

### *Our Business Segments*

We operate as three reportable business segments: ADESA Auctions, IAAI and AFC. Our revenues for the year ended December 31, 2010 were distributed as follows: ADESA 59%, IAAI 34% and AFC 7%. Geographic information as well as comparative segment revenues and related financial information pertaining to ADESA,

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IAAI and AFC for the years ended December 31, 2010, 2009 and 2008 are presented in the tables in Note 20, *Segment Information*, to the Consolidated Financial Statements for KAR Auction Services, Inc., which are included under Item 8 in this Annual Report on Form 10-K.

ADESA

### ***Overview***

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

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 remarketing process.

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

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

### ***Customers***

Suppliers of vehicles to our whole car auctions primarily include (i) large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies; and (ii) franchised and independent used vehicle dealers. For the year ended December 31, 2010, no single supplier accounted for more than 5% of ADESA's revenues.

Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers. For the year ended December 31, 2010, no single buyer accounted for more than 1% of ADESA's revenues.

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*Services*

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

<b>Services</b>	<b>Description</b>
<i><b>Auction Related Services</b></i>	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, post-sale inspections, security for consigned inventory, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
<i><b>Transportation</b></i>	We provide both inbound (pickup) and outbound (delivery) transportation services utilizing our own equipment and personnel as well as licensed and insured third party carriers.
<i><b>Reconditioning Services</b></i>	Our ADESA auctions provide detailing, body work, paintless dent repair ( PDR ), light mechanical work, glass repair, tire and key replacement and upholstery repair.
<i><b>Inspection Services Provided By AutoVIN</b></i>	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures will significantly increase the penetration of the internet as a method of sourcing vehicles for buying dealers.
<i><b>Title and Repossession Administration and Remarketing Services Provided By PAR</b></i>	PAR provides end-to-end management of the remarketing process including titling, repossession administration, inventory management, auction selection, pricing and representation of the vehicles at auction for those customers seeking to outsource all or just a portion of their remarketing needs.
<i><b>ADESA Analytical Services</b></i>	ADESA Analytical Services provides value-added market analysis to our customers and the media. These services include access to publications and custom analysis of wholesale market trends for ADESA's customers, including peer group and market benchmarking studies, analysis of the benefits of reconditioning, site selection for optimized remarketing of vehicles, portfolio analysis of auction sales and computer-generated mapping and buyer analysis.
<i><b>Sales and Marketing</b></i>	

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

Managers of individual auction locations are ultimately responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and

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servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to maximizing value for our vehicle suppliers. We also provide market analysis to our customers through our ADESA Analytical Services department. We market this service to institutional customers as they favorably use analytical techniques in making their remarketing decisions.

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

***Online Solutions***

Our current ADESA online solutions include:

**Proprietary ADESA Technology**

***ADESA LiveBlock***

**Description**

Our live auction internet bidding solution, ADESA LiveBlock , operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other internet bidders via a simple, web-based interface. ADESA LiveBlock provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.

***ADESA DealerBlock®***

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

***ADESA Run List®***

Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.

***ADESA Market Guide®***

Provides wholesale auction prices, auction sales results, market data and vehicle condition information.

***ADESA Virtual Inventory***

Subscription-based service to allow dealers to embed ADESA's search technology into a dealer's Web site to increase the number of vehicles advertised by the dealer.

***ADESA Notify Me***

E-mail notification service for dealers looking for particular vehicles being run at physical or online auctions.

***Competition***

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

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

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

*IAAI*

### ***Overview***

We are one of the two leading providers of salvage vehicle auctions and related services in North America. We operate as Insurance Auto Auctions in the U.S. and Impact Auto Auctions in Canada and serve our customer base through salvage auction locations throughout North America. We facilitate the remarketing 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 scrap needs, 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 as well as fixed fees for other services.

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

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

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***Services***

We also offer a comprehensive suite of auction, logistics and claims services, which aim 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. Some of the services provided by IAAI include:

<b>Services</b>	<b>Description</b>
<b><i>Hybrid Auction Model</i></b>	Through our hybrid auction model vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE <sup>SM</sup> . We believe this exposes the vehicles to the maximum number of potential buyers.
<b><i>Titling Services</i></b>	After a totaled vehicle is received at one of our facilities, it remains in storage but cannot be auctioned until transferable title has been submitted to and processed by us. We provide management reports to the insurance company suppliers, including an aging report of vehicles for which title documents have not been provided. We utilize our title services to expedite the processing of titles, thereby reducing the time in which suppliers receive their salvage proceeds, in addition to decreasing their administrative expenses. We then process the title documents in order to comply with Department of Motor Vehicles ( DMV ) requirements for these vehicles. Wherever possible, we interface electronically with the DMV. In addition, we customarily offer the insurance companies staff training for each state s DMV document processing procedures.
<b><i>Vehicle Inspection Centers</i></b>	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.
<b><i>Transportation and Towing</i></b>	Inbound and outbound logistics administration with actual services typically provided by third party carriers.
<b><i>Vehicle Remarketing Division</i></b>	Focuses on vehicles, rental sellers, fleet and leasing companies, banks and dealer trade-in inventory.
<b><i>Charity Processing</i></b>	Processes vehicle donations to charities across the United States to help turn vehicles into money for a variety of charitable organizations.
<b><i>Settlement Package Express</i></b>	IAAI utilizes a proprietary, in-house salvage title administration product, Settlement Package Express. By providing our customers with this product, we are able to streamline the title procurement process for their vehicles, thereby reducing processing cycle times while potentially eliminating salvage pool storage fees.
<b><i>Customers</i></b>	

We obtain IAAI s supply of vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies. We have long-term relationships with substantially all of the major automobile insurance companies. For the year ended December 31, 2010, no single supplier accounted for more than 4% of IAAI s revenues.

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Buyers of salvage vehicles include automotive body shops, rebuilders, used car dealers, automotive wholesalers, exporters, dismantlers, recyclers, brokers, and where allowed, non-licensed (public) buyers. For the year ended December 31, 2010, no single buyer accounted for more than 3% of IAAI's revenues.

### ***Sales and Marketing***

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

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

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

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

### ***Online Solutions***

Our current IAAI online solutions include:

#### **Proprietary IAAI Technology *i-Bid LIVE<sup>SM</sup>***

#### **Description**

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. Potential buyers bid online in real time along with the live local bidders and other internet bidders via a simple, web-based interface. i-Bid LIVE<sup>SM</sup> provides real-time streaming audio from the live auction and images of salvage vehicles and other data. Buyers inspect and evaluate the salvage vehicle and listen to the auction while it is underway.

#### ***CSA Today***

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

CSA Today enables insurance company suppliers to enter vehicle data electronically and then track and manage the progress of salvage vehicles in terms of both time and salvage recovery dollars. With this tool, vehicle providers have 24-hour access to their total-loss data. The information provided through this system ranges from the details associated with a specific total-loss vehicle, to comprehensive management reports for an



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**Proprietary IAAI Technology**

**Description**

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.

***Automated Salvage Auction Processing (ASAP)***

We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. ASAP provides salvage vehicle suppliers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, salvage returns analysis and electronic data interchange of titling information.

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

***Competition***

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

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

***AFC***

***Overview***

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2010, AFC serviced over 900,000 loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a bank conduit facility on a revolving basis. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

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### ***Customers and Locations***

Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from our auctions, other auctions and non-auction purchases. In 2010, over 80% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. We service auctions through our 88 branches which are conveniently located at or within close proximity of auctions held by ADESA and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

As of December 31, 2010, AFC had over 7,000 active dealers with an average line of credit of approximately \$160,000 and no one dealer representing greater than 1.5% of our portfolio. An average of approximately 13 vehicles per active dealer was floorplanned with an approximate average value of \$8,100 per vehicle at the end of 2010.

### ***Sales and Marketing***

AFC approaches and seeks to expand its share of the independent dealer floorplan market through a number of methods and channels. We target and solicit new dealers through both direct sales efforts at the dealer's place of business as well as auction-based sales and customer service representatives, who service our dealers at auctions where they replenish and rotate vehicle inventory. These largely local efforts are handled by AFC branch managers or AFC branch personnel. AFC's corporate-level team also provides sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating both promotional activity with auctions and other vehicle supply sources.

### ***Credit***

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

The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to \$300,000 are extended using a proprietary scoring model developed internally by AFC with no requirement for financial statements. Credit lines in excess of \$300,000 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 \$300,000, final review by a credit committee.

### ***Collateral Management***

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, insufficient funds received or poor audit results. Branch personnel are proactive in managing collateral by

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monitoring loans and notifying dealers that payments are coming due. In addition, routine audits, or lot checks, are performed on the dealers' lots through our AutoVIN subsidiary. Poor results from lot checks typically require branch personnel to take actions to determine the status of missing collateral, including visiting the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

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

### ***Securitization***

AFC sells the majority of its U.S. dollar denominated finance receivables 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. AFC's securitization facility has been in place since 1996. AFC Funding Corporation had committed liquidity of \$450 million from a third party conduit for U.S. finance receivables at December 31, 2010. The agreement expires on April 20, 2012.

We completed an agreement for the securitization of Automotive Finance Canada, Inc.'s (AFCI) receivables in February 2010. This securitization facility provides up to C\$75 million in financing for eligible finance receivables through another third party conduit. The initial funding for securitization of Canadian finance receivables resulted in net proceeds of \$56.6 million. In accordance with terms of the Company's Credit Agreement, 50% of the net proceeds from the initial securitization of AFC's Canadian receivables were used to repay \$28.3 million of the Company's Term Loan B. The agreement expires on April 20, 2012.

Accounting Standards Update 2009-16 amended ASC 860, *Transfers and Servicing*, and we adopted the new guidance on January 1, 2010. The new guidance specifies that the finance receivable transactions on or subsequent to January 1, 2010 under our revolving sale agreement be included in our balance sheet. See Management's Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements and Adoption of Accounting Standards Update 2009-16.

### ***Competition***

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

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

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### ***Seasonality***

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

### ***Vehicle and Lending Regulation***

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

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

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

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

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

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

We are subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location.

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

### ***Environmental Regulation***

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

## Edgar Filing: KAR Auction Services, Inc. - Form 10-K

In the used vehicle remarketing industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored and/or refurbished at auction facilities and during that time minor releases of fuel, motor oil and other materials may occur. We have investigated or remediated, or are currently investigating or remediating,

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contamination resulting from various sources, including gasoline, fuel additives (such as methyl tertiary butyl ether, or MTBE), motor oil, petroleum products and other hazardous materials released from aboveground or underground storage tanks or in connection with current or former operations conducted at our facilities. In certain instances, contamination has migrated to nearby properties, resulting in claims from private parties. We have incurred and may in the future incur expenditures relating to releases of hazardous materials, investigative, remedial or corrective actions, claims by third parties and other environmental issues, and such expenditures, individually or in the aggregate, could be significant.

Federal and state environmental authorities are currently investigating IAAI's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAAI's potential liability at this site cannot be estimated at this time. See Item 3 Legal Proceedings for a further discussion of this matter.

Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including environmental matters are included in Other accrued expenses 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.

### ***Employees***

At December 31, 2010, we had a total of 12,558 employees, of which 9,663 were located in the U.S. and 2,895 were located in Canada and Mexico. Approximately 67% of our workforce consists of full-time employees. Currently, none of our employees participate in collective bargaining agreements.

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

### ***Available Information***

Our Web address is [www.karauctionservices.com](http://www.karauctionservices.com). Our electronic filings with the Securities and Exchange Commission (SEC) (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the Web site as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, our Corporate Governance Guidelines, Code of Conduct and Ethics, Code of Ethics for Principal Executive and Senior Financial Officers and charters of the audit committee, the nominating and corporate governance committee and the compensation committee of our board of directors are available on our Web site and available in print to any shareholder who requests it. The information posted on our Web site is not incorporated into this Annual Report.

Any materials that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet Web site that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov).

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### **Item 1A. Risk Factors**

*Investing in our Company involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this Annual Report on Form 10-K, before deciding to invest in our Company. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, prospects, results of operations and cash flows. In such case, the trading price of our common stock could decline and you could lose all or part of your investment.*

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

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

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

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

The number of new and used vehicles that are leased by consumers affects the supply of vehicles coming to auction in future periods as the leases mature. As manufacturers and other lenders decrease the number of new vehicle lease originations and extend the terms of some of the existing leases, the number of off-lease vehicles available at auction for the industry declines. In total, off-lease vehicles available at auction for the industry rose over 15% from 2006 to 2008, remained constant for 2009 and declined slightly in 2010, based on our estimates. During 2009 and 2008, total new vehicle sales declined year over year and a number of automobile lenders announced the modification of or discontinuance of their leasing programs, leading to a decline in new vehicle lease originations. This will reduce the number of off-lease vehicles at auction as the leases mature. The typical lease maturity is two to four years. We believe the declines in lease originations in 2009 and 2008 will negatively impact the number of off-lease vehicles sold at auction in 2011 and 2012. If the supply of off-lease vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected. Volumes of off-lease vehicles in subsequent periods will be affected by total new vehicle sales and the future leasing behavior of manufacturers and lenders and therefore we may not be able to accurately predict the volume of vehicles coming to auction. The supply of off-lease vehicles coming to auction is also affected by the market value of used vehicles compared to the residual value of those vehicles per the lease terms. In most cases, the lessee and the dealer have the ability to purchase the vehicle at the residual price at the end of the lease term. Generally, as market values of used vehicles rise, the number of vehicles purchased at residual value by the lessees and dealers increases, thus decreasing the number of off-lease vehicles available at auction.

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

We are dependent upon receiving a sufficient number of total loss vehicles as well as recovered theft vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, delays or changes in state title processing, and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles,

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which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of key insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. In addition, in the last few years there has been a declining trend in theft occurrences which reduces the number of stolen vehicles recovered by insurance companies for which a claim settlement has been made. If the supply of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected.

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

Future adverse economic conditions could increase our exposure to several risks, including:

*Fluctuations in the supply of used vehicles.* We are dependent on the supply of used vehicles coming to auction. During the recent global economic downturn and credit crisis, there was an erosion of retail demand for new and used vehicles that led many lenders to cut back on originations of new loans and leases and led to significant manufacturing capacity reductions by automakers selling vehicles in the United States. Capacity reductions could depress the number of vehicles received at auction in the future.

*Decline in the demand for used vehicles.* We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and the decline in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers negatively affects our ability to collect receivables and may reduce dealer demand for used vehicles.

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

*Volatility in the asset-backed securities market.* Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.

*Increased counterparty credit risk.* Continued market deterioration could increase the risk of the failure of financial institutions party to our credit agreement and other counterparties with which we do business to honor their obligations to us. Our ability to replace any such obligations on the same or similar terms may be limited if challenging credit and general economic conditions persist.

*Ability to service and refinance indebtedness.* Continued uncertainty in the financial markets may negatively affect our ability to service our existing debt, access additional financing or to refinance our existing indebtedness on favorable terms or at all. If the economic downturn continues, it may affect our cash flow from operations and results of operations, which may affect our ability to service payment obligations on our debt or to comply with our debt covenants.

**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





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

Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If these systems were compromised, not operable for extended periods of time or ceased to function properly, we may have to make a significant investment to fix or replace them and our ability to provide many of our electronic and online solutions to our customers may be impaired. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

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

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles and for the floorplan financing of these vehicles. Current or potential competition comes from four primary sources: (i) direct competitors, (ii) potential entrants, (iii) potential new vehicle remarketing venues and dealer financing services and (iv) existing alternative vehicle remarketing venues. In both the vehicle auction and dealer financing businesses, we and our competitors are working to develop new services and technologies, or improvements and modifications to existing services and technologies. Some of these competitors may have greater financial and marketing resources than we do, and may be able to respond more quickly to new or emerging services and technologies, evolving industry trends and changes in customer requirements, and devote greater resources to the development, promotion and sale of their services. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business and results of operations. There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us would not have a material adverse effect on our business and results of operations. If we are not able to compete successfully, our ability to grow and achieve or sustain profitability could be impaired. Our agreements with our largest institutional suppliers are generally subject to cancellation by either party upon 30 to 90 days' notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these or other suppliers on similar terms, or at all.

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

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

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### **We have a substantial amount of debt, which could impair our financial condition and adversely affect our ability to react to changes in our business.**

As of December 31, 2010, our total debt was approximately \$1.9 billion, exclusive of liabilities related to our securitization facilities, and we had \$250.0 million of borrowing capacity under our senior secured credit facilities.

Our substantial indebtedness could have important consequences including:

limiting our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy, acquisitions and other purposes;

requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on debt, which would reduce the funds available for other purposes, including funding future expansion;

making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult to react quickly to, changing conditions; and

exposing us to risks inherent in interest rate fluctuations because some of our indebtedness, including a portion of the borrowings under the senior secured credit facilities, are at variable rates of interest, which could result in higher interest expenses in the event of increases in interest rates.

In addition, if we are unable to generate sufficient cash from operations to service our debt and meet other cash needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, particularly because of our high levels of debt and the restrictions imposed by the agreement governing our senior secured credit facility and the indentures governing our senior notes and senior subordinated notes on our ability to incur additional debt and use the proceeds from asset sales. If we must sell certain of our assets, it may negatively affect our ability to generate revenue. The inability to obtain additional financing could have a material adverse effect on our financial condition.

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

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

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

we could be forced into bankruptcy or liquidation.

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

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

incur additional debt;

provide guarantees in respect of obligations of other persons;

issue redeemable stock and preferred stock;

pay dividends or distributions or redeem or repurchase capital stock;

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prepay, redeem or repurchase certain 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.

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

We are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to growing market share and volume, increasing revenue per vehicle and improving customer experiences through internet initiatives, using excess cash flow to reduce debt, leveraging AFC's products and services at ADESA and IAAI and continuing to improve operating efficiency. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash flows from operations (we generated \$467.6 million and \$250.8 million of cash flow from operations for the years ended December 31, 2010 and 2009, respectively), we may be unable to reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

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

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

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

The growing political and scientific sentiment is that increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere may influence the unpredictability, severity and frequency of weather patterns. Changing weather patterns could further impact our operations as described above.

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

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. For the year ended December 31, 2010, approximately 17% of our revenues were attributable to our Canadian operations. A decrease in the value of the Canadian

currency

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relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars.

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

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

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

### **Uncertain conditions at the major original equipment manufacturers could negatively impact auction volumes.**

Our financial performance depends, in part, on conditions in the automotive industry. Prior to 2010, original equipment manufacturers had experienced declining new vehicle sales in North America. Resulting capacity reductions may lead to reduced program vehicles and rental fleet sales, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.

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

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

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

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

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

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

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attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Failure to do so could materially adversely affect our business, financial condition and results of operations. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

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

incurring significantly higher capital expenditures and operating expenses;

entering new markets with which we are unfamiliar;

incurring potential undiscovered liabilities at acquired auctions;

failing to maintain uniform standards, controls and policies;

impairing relationships with employees and customers as a result of management changes; and

increasing expenses for accounting and computer systems, as well as integration difficulties.

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

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

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

Federal and state environmental authorities are currently investigating IAAI's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAAI's potential liability at this site cannot be estimated at this time. See Item 3, Legal Proceedings for a further discussion of this matter.

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

Our operations are subject to regulation, supervision and licensing under various U.S. and Canadian federal, state, provincial and local authorities, agencies, statutes and ordinances, which, among other things, require us to





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obtain and maintain certain licenses, permits and qualifications, provide certain disclosures and notices and limit interest rates, fees and other charges. The regulations and laws that impact our company include, without limitation, the following:

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

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

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

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

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

We are subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location.

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

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

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

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

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

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

effect on our results of operations and financial condition by reducing the demand for our products and services.

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

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers' compensation claims. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. If actual trends, including the severity of claims and medical cost inflation above expectations were to occur, our self-insured costs would increase, which could have an adverse impact on the operating results in that period.

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

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

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

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

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

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

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

ADESA and ALLETE entered into a tax sharing agreement in 2004, which governs ALLETE's and ADESA's respective rights, responsibilities and obligations after the spin-off with respect to taxes for the periods ending on or before the spin-off. Under the tax sharing agreement, if the spin-off becomes taxable to ALLETE,

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ADESA may be required to indemnify ALLETE for any taxes which arise as a result of ADESA's actions or inaction. In addition, ADESA has agreed to indemnify ALLETE for 50% of any taxes related to the spin-off that do not arise as a result of actions or inaction of either ADESA or ALLETE.

### **We may be subject to patent or other intellectual property infringement claims, which could have an impact on our business or operating results due to a disruption in our business operations, the incurrence of significant costs and other factors.**

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

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

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

## **Risks Related to Ownership of Our Common Stock**

### **The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.**

Before our initial public offering in December 2009, there was no public market for our common stock and an active public market for our common stock may not be sustained. The price of our common stock in any such market may be higher or lower than the price you pay. You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuations in the market value of your investment. Many factors could cause the market price of our common stock to rise and fall, including the following:

our announcements or our competitors' announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;

changes in earnings estimates or recommendations by securities analysts, if any, who cover our common stock;

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

changes in our capital structure, such as future issuances of securities, sales of large blocks of common stock by our stockholders or our incurrence of additional debt;

investors' general perception of us and our industry;

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changes in general economic and market conditions in North America;

changes in industry conditions; and

changes in regulatory and other dynamics.

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

**Future offerings of debt or equity securities, which would rank senior to our common stock, may adversely affect the market price of our common stock.**

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

**The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.**

At February 18, 2011, there were 135,604,691 shares of common stock outstanding. Of our issued and outstanding shares, all of the common stock sold in the December 2009 initial public offering is freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Approximately 79% of our outstanding common stock is held by affiliates of the Equity Sponsors and other equity co-investors (indirectly through their investment in KAR LLC) and members of our management and employees.

In addition, pursuant to a registration rights agreement entered into in connection with the 2007 Transactions, we have granted KAR LLC the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act covering resales of all shares of our common stock held by KAR LLC. These shares represent approximately 79% of our outstanding common stock. These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on the holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or if KAR LLC exercises its registration rights, the market price of our stock could decline if KAR LLC sells the shares or is perceived by the market as intending to sell them. See Item 13, Certain Relationships and Related Transactions, and Director Independence.

We have also filed a registration statement registering under the Securities Act the shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital.

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

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

limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;

rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;

permitting our board of directors to issue preferred stock without stockholder approval;

granting to the board of directors, and not the stockholders, the sole power to set the number of directors; and

authorizing vacancies on our board of directors to be filled only by a vote of the majority of the directors then in office and specifically denying our stockholders the right to fill vacancies in the board.

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

authorizing the removal of directors only for cause and only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and

prohibiting stockholder action by written consent.

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

We are indirectly controlled by affiliates of the Equity Sponsors. Affiliates of the Equity Sponsors and management indirectly own through their investment in KAR LLC approximately 79% of our common stock. As a result, affiliates of the Equity Sponsors have control over our decisions to enter into any corporate transaction and the ability to prevent any transaction that requires shareholder approval regardless of whether others believe that the transaction is in our best interests. So long as the Equity Sponsors continue to indirectly hold a majority of our outstanding common stock, they will have the ability to control the vote in any election of directors.

We have entered into a director designation agreement that provides for the rights of KAR LLC directly, and the Equity Sponsors indirectly, to nominate designees to our board of directors. See Item 13, Certain Relationships and Related Transactions, and Director Independence.

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





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

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

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

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

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

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

the requirement that a majority of the Board of Directors consist of independent directors;

the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees. We are utilizing these exemptions. As a result, we do not have a majority of independent directors, our nominating/corporate governance committee and compensation committee do not consist entirely of independent directors and such committees are not subject to annual performance evaluations. Accordingly, you do not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

### **Item 1B. Unresolved Staff Comments**

None.



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**Item 2. Properties**

Our corporate headquarters are located in Carmel, Indiana. Our corporate headquarters for ADESA and AFC also are located in Carmel, Indiana. Our corporate headquarters are leased properties, with office space being leased in each case through 2019. At December 31, 2010, properties utilized by the ADESA business segment include 70 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 6 lanes per location.

IAAI is headquartered in Westchester, Illinois, with office space being leased through 2016. At December 31, 2010, properties utilized by the IAAI business segment include 159 salvage vehicle auction facilities in the U.S. and Canada, most of which are leased. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA. The IAAI properties are used primarily for auction and storage purposes consisting on average of approximately 27 acres of land per site.

Of AFC's 88 branches in North America at December 31, 2010, 57 are physically located at auction facilities (including 48 at ADESA). Each of the remaining 31 AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

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

**Item 3. Legal Proceedings**

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

***IAAI Lower Duwamish Waterway***

On March 25, 2008, the United States Environmental Protection Agency, or EPA, issued a General Notice of Potential Liability pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA to IAAI for a Superfund site known as the Lower Duwamish Waterway Superfund Site in Seattle, Washington, or LDW. 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 advised IAAI that, to date, it has sent out approximately 60 general notice letters to other parties, and has sent Section 104(e) Requests to more than 250 other parties. A remedial investigation has been conducted for this site by some of the potentially responsible parties, who have also commenced a feasibility study pursuant to CERCLA. IAAI is aware that certain authorities plan to bring Natural Resource Damage claims against potentially responsible parties. In addition, the Washington State Department of Ecology is working with the EPA in relation to LDW, primarily to investigate and address sources of potential contamination contributing to LDW. IAAI, the owner, and predecessor at their Tukwila location, which is adjacent to the LDW, are currently in discussion with the Washington State Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the

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stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system. In 2010, IAAI began implementing a stormwater sampling plan to comply with the Washington State Department of Ecology source control requirements.

**Item 4. Removed and Reserved**

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities  
Market Information and Holders of Record**

KAR Auction Services' common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol KAR and has been traded on the NYSE since December 11, 2009. As of February 18, 2011, there were 2 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

The following table sets forth the range of high and low sales prices per share of common stock for each quarter during fiscal year 2010 and the period December 11 through December 31, 2009:

	<b>2010</b>	
	<b>High</b>	<b>Low</b>
4 <sup>th</sup> Quarter (October 1 – December 31)	\$ 14.37	\$ 11.74
3 <sup>rd</sup> Quarter (July 1 – September 30)	\$ 13.73	\$ 11.03
2 <sup>nd</sup> Quarter (April 1 – June 30)	\$ 15.84	\$ 11.52
1 <sup>st</sup> Quarter (January 1 – March 31)	\$ 15.56	\$ 13.10
	<b>2009</b>	
	<b>High</b>	<b>Low</b>
4 <sup>th</sup> Quarter (December 11 – December 31)	\$ 13.92	\$ 11.09

***Dividend Policy***

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

In addition, pursuant to certain covenants governing our senior credit facility and notes, we are subject to certain restrictions on our ability to pay dividends.

**Table of Contents*****Stock Price Performance Graph***

The graph below shows the cumulative total stockholder return, assuming the investment of \$100, for the period beginning on December 11, 2009, the first trading day of KAR Auction Services common stock, and ending on December 31, 2010, on each of KAR Auction Services common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's Smallcap 600 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Company/Index	Base			
	12/11/2009	12/31/2009	6/30/2010	12/31/2010
KAR Auction Services, Inc.	\$ 100	\$ 114.63	\$ 102.83	\$ 114.71
S&P 400 Midcap Index	\$ 100	\$ 102.94	\$ 100.82	\$ 128.52
S&P Smallcap 600 Index	\$ 100	\$ 104.86	\$ 103.39	\$ 131.05

**Table of Contents****Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements and related notes thereto of KAR Auction Services, Inc. and other financial information included elsewhere in this Annual Report on Form 10-K.

**Selected Financial Data of KAR Auction Services****For the Years Ended December 31, 2010, 2009, 2008 and 2007**

The following consolidated financial data for the years ended December 31, 2010, 2009, 2008 and 2007 is based on our audited financial statements. We were incorporated on November 9, 2006, but had no operations in 2006 or for the period of January 1 through April 19, 2007. On April 20, 2007, we consummated a merger agreement with ADESA, Inc. and as part of the related transactions, ADESA and IAAI became, directly or indirectly, our wholly owned subsidiaries.

(Amounts in millions except per share amounts)

	<b>Year Ended December 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007<sup>(1)</sup></b>
<b>Operations:</b>				
Operating revenues				
ADESA	\$ 1,075.9	\$ 1,088.5	\$ 1,123.4	\$ 677.7
IAAI	610.4	553.1	550.3	330.1
AFC	128.7	88.0	97.7	95.0
Total operating revenues	\$ 1,815.0	\$ 1,729.6	\$ 1,771.4	\$ 1,102.8
Operating expenses (exclusive of depreciation and amortization and impairment charges)	1,374.9	1,361.9	1,436.7	869.8
Goodwill and other intangibles impairment			164.4	
Operating profit (loss)	268.8	195.3	(12.5)	106.4
Interest expense	141.4	172.6	215.2	162.3
Income (loss) from continuing operations	69.6	23.2	(216.2)	(38.3)
Net income (loss)	69.6	23.2	(216.2)	(38.3)
Net income (loss) per share				
Basic	0.52	0.21	(2.02)	(0.36)
Diluted	0.51	0.21	(2.02)	(0.36)
Weighted average shares outstanding				
Basic	134.9	108.0	106.9	106.7
Diluted	135.9	108.1	106.9	106.7
		<b>At December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Financial Position:</b>				
Working capital <sup>(2)</sup>	\$ 287.9	\$ 299.5	\$ 304.3	\$ 442.1
Total assets	4,525.0	4,251.3	4,157.6	4,530.8
Total debt	1,875.7	2,272.9	2,527.4	2,616.7
Total stockholders' equity	1,244.6	1,141.5	750.7	1,013.6
		<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007<sup>(1)</sup></b>
<b>Other Financial Data:</b>				
Net cash provided by operating activities	\$ 467.6	\$ 250.8	\$ 224.9	\$ 96.8
Capital expenditures	78.9	65.6	129.6	62.7
Depreciation and amortization	171.3	172.4	182.8	126.6

(1) We had no operations prior to the merger transactions on April 20, 2007; as such, this data represents the period from April 20, 2007 through December 31, 2007.

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



**Table of Contents****Selected Financial Data of Predecessor ADESA****For the Period January 1 through April 19, 2007 and the Year Ended December 31, 2006**

The selected financial data of ADESA for the period January 1 through April 19, 2007, and for the year ended December 31, 2006, and as of April 19, 2007 and December 31, 2006, presented below has been derived from audited financial statements that are not included in this Annual Report on Form 10-K. Certain amounts reported in previous periods have been reclassified to conform to the current presentation.

	January 1 April 19, 2007	Year Ended December 31, 2006
<i>(Dollars in millions except per share amounts)</i>		
<b>Operations:</b>		
Operating revenues		
Auction services group	\$ 325.4	\$ 959.9
Dealer services group	45.9	144.0
Total operating revenues	\$ 371.3	\$ 1,103.9
Operating expenses (exclusive of depreciation and amortization)	297.6	832.5
Operating profit	57.8	224.9
Interest expense	7.8	27.4
Income from continuing operations	27.0	126.8
Net income	26.9	126.3
Basic earnings per share from continuing operations	\$ 0.30	\$ 1.41
Diluted earnings per share from continuing operations	\$ 0.29	\$ 1.41
Cash dividends declared per share	\$	\$ 0.30
	At April 19, 2007	At December 31, 2006
<b>Financial Position:</b>		
Working capital <sup>(1)</sup>	\$ 381.3	\$ 325.2
Total assets	2,219.5	1,975.3
Total debt	345.0	352.5
Total stockholders' equity	1,238.7	1,203.5
	January 1 April 19, 2007	For the Year Ended December 31, 2006
<b>Other Financial Data:</b>		
Net cash provided by operating activities	\$ 14.9	\$ 190.9
Capital expenditures	11.3	37.1
Depreciation and amortization	15.9	46.5

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

**Table of Contents****Selected Financial Data of Predecessor IAAI****For the Period January 1 through April 19, 2007 and the Year Ended December 31, 2006**

The statement of operations data of IAAI for the period January 1 through April 19, 2007, and for the year ended December 31, 2006, as well as the balance sheet data for April 19, 2007 and December 31, 2006, has been derived from audited consolidated financial statements not included in this Annual Report on Form 10-K.

IAAI's fiscal year 2006 consisted of 53 weeks and ended on December 31, 2006.

<i>(Dollars in thousands)</i>	<b>January 1 April 19, 2007</b>	<b>Year Ended December 31, 2006</b>
<b>Operations:</b>		
Revenues	\$ 114,788	\$ 331,950
Earnings from operations	10,985	22,581
Net earnings (loss)	(\$ 370)	(\$ 7,179)
<i>(Dollars in thousands)</i>	<b>April 19, 2007</b>	<b>2006</b>
<b>Financial Position (at period end):</b>		
Working capital <sup>(1)</sup>	\$ 53,798	\$ 49,973
Total assets	582,751	588,021
Total debt <sup>(2)</sup>	344,242	344,842
Current debt <sup>(2)</sup>	2,167	2,247
Long-term debt <sup>(2)</sup>	342,075	342,595
Total shareholders' equity	139,927	137,576

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

(2) Includes capital leases.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Selected Financial Data and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.*

#### ***Forward-Looking Statements***

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this report on Form 10-K that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as *should, may, will, anticipates, expects, intends, plans, believes, seeks, estimates, and similar expressions* identify forward-looking statements. Such statements include statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives, greenfields and acquisitions; our competitive position; and our continued investment in information technology are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A *Risk Factors* of this Annual Report on Form 10-K. Some of these factors include:

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;

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costs associated with the acquisition of businesses or technologies;

litigation developments;

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

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

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

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

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weather;

general business conditions;

our substantial amount of debt;

restrictive covenants in our debt agreements;

our assumption of the settlement risk for vehicles sold;

any impairment to our goodwill;

our self-insurance for certain risks;

any losses of key personnel;

interruptions to service from our workforce;

changes in effective tax rates;

changes to accounting standards; and

other risks described from time to time in our filings with the SEC, including the Quarterly Reports on Form 10-Q to be filed by us in 2011.

Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this document are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, acquire additional auctions, manage expansion, relocate and integrate acquisitions, control costs in our operations, introduce fee increases, expand our product and service offerings including information systems development and retain our executive officers and key employees. Certain initiatives that management considers important to our long-term success include substantial capital investment in e-business, information technology, facility relocations and expansions, as well as operating initiatives designed to enhance overall efficiencies, have significant risks associated with their execution, and could take several years to yield any direct monetary benefits. Accordingly, we cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other remarketing methods in the future and what impact this may have on our auction business.

***Overview***

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

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The ADESA Auctions segment consisted primarily of a 70 whole car auction network in North America at December 31, 2010. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. ADESA also provides value-added ancillary services including inspections, storage, transportation, reconditioning and titling and other administrative services.

The IAAI segment consisted of salvage vehicle auctions and related services provided at 159 sites in North America at December 31, 2010. The salvage auctions facilitate the remarketing of damaged or low value vehicles designated as total losses by insurance companies and charity donation vehicles, as well as recovered stolen (or theft) vehicles. The salvage auction business specializes in providing services such as transportation, titling, salvage recovery and claims settlement administrative services.

The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At December 31, 2010, AFC conducted business through 88 branches in North America.

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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 our management team, certain human resources, information technology and accounting costs, and incremental 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 information technology costs allocated by the holding company.

### *Industry Outlook and Trends*

#### ***Whole Car***

During the period from 1999 to 2009, despite fluctuations in economic conditions, new vehicle sales and churn (i.e., the rate of ownership transfer of vehicles in the used vehicle market), used vehicles sold in North America through whole car auctions remained within the relatively narrow range of approximately 9 million to 10 million used vehicles per year. We estimate that the vehicle population in the United States has increased from 209.5 million units in 1999 to in excess of 248 million units in 2010 and therefore the used vehicle market, and hence the used vehicle auction industry, have an even larger inventory of potential transactions to draw from. A larger vehicle population may partially offset any short-term decreases in new vehicle sales, which we believe has resulted in vehicle auction volumes remaining fairly consistent over the last several years. However, we estimate that whole car auction volume was approximately 8.4 million to 8.5 million units for the year ended December 31, 2010. We believe that, despite challenging conditions in the overall economy and the automotive industry in 2008, 2009 and 2010 and the attendant fluctuations in new vehicle sales and churn, used vehicle auction volumes in North America in the foreseeable future will be within the range of approximately 8 million to 9 million used vehicles per year. The decline in industry auction volumes in 2010 as compared to the period from 1999 to 2009 reflects a reduction in units sold by institutional consignors. This decrease has been partially offset by an increase in dealer consignment units sold in 2010 as compared to 2009.

#### ***Salvage***

During the period from 2006 through 2009, the North American salvage vehicle auction industry volumes increased. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. The percentage of claims resulting in total losses steadily increased to over 14% in 2009 and was slightly below 14% in 2010. For the year ended December 31, 2010 as compared with the year ended December 31, 2009, we believe the salvage industry auction volumes were down slightly. To the extent this trend continues or a decline in the salvage vehicle auction industry volumes occurs, it could have an adverse impact on IAAI's results of operations.

#### ***Automotive Finance***

In 2008 and 2009, the overall economy and in particular the automotive finance industries faced pressures which negatively affected the used vehicle dealer base. In excess of 6,300 independent dealers went out of business during 2008 and 2009, almost a 15% reduction in the independent dealer base. Used vehicle dealers experienced a significant decline in sales which resulted in a decrease in consumer auto loan originations and an increased number of dealers defaulting on their loans which increased credit losses. In addition, the value of recovered collateral on defaulted loans was impacted to some degree by the volatility in the vehicle pricing market. To the extent these negative trends recur, they could have a material adverse impact on AFC's results of operations.

Despite the negative factors and trends impacting the automotive finance industry in 2008 and 2009, AFC's financial results improved in the second half of 2009 and throughout 2010. AFC implemented a number of strategic initiatives in 2008 and early 2009 designed to tighten credit standards and reduce risk and exposure in

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its portfolio of finance receivables. These initiatives have resulted in a substantial ongoing improvement in the aging of the managed portfolio, which was just under 99 percent current at December 31, 2010. In addition, AFC's managed portfolio of finance receivables grew approximately 26 percent from December 31, 2009 to \$771.6 million at December 31, 2010. The average value of a vehicle on floorplan at AFC has increased approximately 5% from December 31, 2009 to December 31, 2010.

### ***General***

In 2008 and 2009, significant changes occurred in the economy which impacted our business. A lack of availability of consumer credit for retail used vehicle buyers, a decline in consumer spending, a reduction in the number of franchised and independent used vehicle dealers in the United States, reduced miles driven and decreases in commodity prices such as steel and platinum all negatively impacted us. Additionally, factors that influenced our business in 2010 included increases in used vehicle prices, supply constraints resulting from the decline in new vehicle sales during the recession, a decrease in the number of repossessions, lower loan default rates and fewer vehicles being classified as total loss vehicles by the insurance industry.

The availability of financing to franchised dealerships and consumers from the vehicle manufacturers' captive finance companies and their respective remarketing programs may also impact the supply of vehicles to the wholesale auction industry in the future. A change in the supply of used vehicles could impact the value of used vehicles sold, conversion rates (calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale) and ADESA's profitability on the sale of vehicles. In addition, we believe the reduced number of lease originations in 2008 and 2009 will negatively impact the supply of off-lease vehicles available at auction in 2011 and 2012.

### ***Seasonality***

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

### ***Sources of Revenues and Expenses***

Our revenue is derived from auction fees and related services at our whole car and salvage auction facilities and dealer financing fees and interest income at AFC. Although auction revenues primarily include the auction services and related fees, our related receivables and payables include the gross value of the vehicles sold.

Prior to January 1, 2010, AFC's net revenue consisted primarily of securitization income and interest and fee income less provisions for credit losses. Securitization income was primarily comprised of the gain on sale of finance receivables sold, but also included servicing income, discount accretion, and any change in the fair value of the retained interest in finance receivables sold. Accounting Standards Update 2009-16 amended ASC 860, *Transfers and Servicing*, and we adopted the new guidance on January 1, 2010. As a result of adopting the guidance, our consolidated statement of income no longer reflects securitization income, but instead reports interest and fee income, provision for credit losses and other income associated with our securitized finance receivables, in the same line items in our statement of income as non-securitized receivables. Interest expense associated with the related obligation is now recorded below operating profit as Interest expense in our consolidated statement of income. Additionally, we no longer record a gain on sale for securitization activity.



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since finance receivables securitized no longer receive gain on sale treatment. The impact of the elimination of gain on sale treatment resulted in a reduction of pre-tax income of approximately \$2.8 million in the first quarter of 2010.

Our operating expenses consist of cost of services, selling, general and administrative and depreciation and amortization. Cost of services is composed of payroll and related costs, subcontract services, supplies, insurance, property taxes, utilities, maintenance and lease expense related to the auction sites and loan offices. Cost of services excludes depreciation and amortization. Selling, general and administrative expenses are composed of payroll and related costs, sales and marketing, information technology services and professional fees.

**Results of Operations****Overview of Results of KAR Auction Services for the Years Ended December 31, 2010 and 2009:**

<i>(Dollars in millions except per share amounts)</i>	Year Ended December 31,	
	2010	2009
Revenues		
ADESA	\$ 1,075.9	\$ 1,088.5
IAAI	610.4	553.1
AFC	128.7	88.0
Total revenues	1,815.0	1,729.6
Cost of services*	1,001.7	997.3
Gross profit*	813.3	732.3
Selling, general and administrative	373.2	364.6
Depreciation and amortization	171.3	172.4
Operating profit	268.8	195.3
Interest expense	141.4	172.6
Other income, net	(2.1)	(11.6)
Loss on extinguishment of debt	32.7	
Income before income taxes	96.8	34.3
Income taxes	27.2	11.1
Net income	\$ 69.6	\$ 23.2
Net income per share		
Basic	\$ 0.52	\$ 0.21
Diluted	\$ 0.51	\$ 0.21

\*Exclusive of depreciation and amortization

For the year ended December 31, 2010, we had revenue of \$1,815.0 million compared with revenue of \$1,729.6 million for the year ended December 31, 2009, an increase of 5%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

*Depreciation and Amortization*

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Depreciation and amortization decreased \$1.1 million, or 1%, to \$171.3 million for the year ended December 31, 2010, compared with \$172.4 million for the year ended December 31, 2009. The decrease is representative of certain assets becoming fully depreciated, partially offset by an increase in 2010 capital spending compared to 2009, as well as an increase in depreciation related to acquired sites.

### *Interest Expense*

Interest expense decreased \$31.2 million, or 18%, to \$141.4 million for the year ended December 31, 2010, compared with \$172.6 million for the year ended December 31, 2009. The decrease in interest expense was primarily the result of a \$250.0 million prepayment on Term Loan B in the fourth quarter of 2009, a \$225.6

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million prepayment on the principal amount of the senior subordinated notes in January 2010, a \$28.3 million prepayment on Term Loan B in February 2010, a \$75.0 million prepayment on Term Loan B in November 2010 and a \$68.3 million prepayment on the principal amount of the senior subordinated notes in December 2010. Partially offsetting the decrease was an increase in interest expense that resulted from the adoption of Accounting Standards Update 2009-16 in 2010. Included in interest expense in 2010 is \$7.2 million in AFC interest related to the securitized finance receivables. Prior to 2010, AFC interest expense was recorded as a reduction of AFC net revenue.

### *Other Income*

Other income was \$2.1 million for the year ended December 31, 2010, compared with other income of \$11.6 million for the year ended December 31, 2009. The change in other income was primarily representative of smaller foreign currency transaction gains for the year ended December 31, 2010, compared to the year ended December 31, 2009.

### *Loss on Extinguishment of Debt*

In connection with our initial public offering, we conducted a cash tender offer for certain of our notes. The tender offer was oversubscribed and as such, in accordance with the identified priority levels, only a portion of the senior subordinated notes tendered were accepted for prepayment. In January 2010, we prepaid \$225.6 million principal amount of the senior subordinated notes with proceeds received from the initial public offering and the underwriters option to purchase additional shares. In the first quarter of 2010, we recorded a \$25.3 million pretax charge representative of the net premiums payable related to the repurchase of the senior subordinated notes, the write-off of certain unamortized debt issuance costs associated with our senior subordinated notes and certain expenses related to the tender offer.

In addition, in the fourth quarter of 2010, we conducted a cash tender offer for certain of our notes. The tender offer was oversubscribed and as such, in accordance with the identified priority levels, only a portion of the senior subordinated notes tendered were accepted for prepayment. In December 2010, we prepaid \$68.3 million principal amount of the senior subordinated notes with available cash and recorded a \$7.4 million pretax charge representative of the net premiums payable related to the repurchase of the senior subordinated notes, the write-off of certain unamortized debt issuance costs associated with our senior subordinated notes and certain expenses related to the tender offer.

### *Income Taxes*

Our effective tax rate was 28.1% for the year ended December 31, 2010 compared with 32.4% for the year ended December 31, 2009. Excluding the effect of the discrete items, our effective tax rates for the years ended December 31, 2010 and December 31, 2009 would have been 38.3% and 51.8%, respectively. The change in the tax rate, excluding the effect of discrete items, was primarily attributable to the reduction of expenses permanently nondeductible for tax purposes, the increase in consolidated pre-tax profits and lower tax rates in state and foreign jurisdictions. We expect our effective tax rate to be approximately 30% in 2011, which reflects the recognition of the impact of certain tax deductions which will not impact future periods. As such, we expect our effective tax rate to be approximately the statutory income tax rate in 2012, not taking into consideration unknown future events.

**Table of Contents****ADESA Results**

<i>(Dollars in millions)</i>	Year Ended	
	December 31,	
	2010	2009
ADESA revenue	\$ 1,075.9	\$ 1,088.5
Cost of services*	611.2	615.4
Gross profit*	464.7	473.1
Selling, general and administrative	211.9	207.1
Depreciation and amortization	86.9	88.4
Operating profit	\$ 165.9	\$ 177.6

\* Exclusive of depreciation and amortization  
Revenue

Revenue from ADESA decreased \$12.6 million, or 1%, to \$1,075.9 million for the year ended December 31, 2010, compared with \$1,088.5 million for the year ended December 31, 2009. The decrease in revenue was primarily a result of a 7% decrease in the number of vehicles sold, partially offset by a 6% increase in revenue per vehicle sold to over \$570 for the year ended December 31, 2010, compared to approximately \$540 for the year ended December 31, 2009.

The 6% increase in revenue per vehicle sold was attributable to incremental fee income related to higher used vehicle values and selective fee increases which resulted in increased ADESA revenue of approximately \$27.4 million. In addition, fluctuations in the Canadian exchange rate resulted in increased ADESA revenue of approximately \$22.9 million, and increases in ancillary services, such as transportation and other services, resulted in increased ADESA revenue of approximately \$8.3 million.

The total number of used vehicles sold at ADESA decreased 7% for the year ended December 31, 2010, compared with the year ended December 31, 2009 and resulted in a decrease in ADESA revenue of approximately \$71.2 million. The decrease in volume sold was attributable to a decline in supplier inventory levels in 2010 compared to 2009. For the year ended December 31, 2010, as compared with the year ended December 31, 2009, we estimate that the decline in industry volumes was consistent with the decline experienced at ADESA. Online sales volumes for ADESA in 2010 represented over 20% of the total vehicles sold by ADESA.

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, decreased to 65.0% for the year ended December 31, 2010, compared with 66.9% for the year ended December 31, 2009. The decrease in conversion rates is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate. For the year ended December 31, 2010, dealer consignment vehicles represented approximately 33% of used vehicles sold at ADESA, an increase from 29% for the year ended December 31, 2009.

*Gross Profit*

For the year ended December 31, 2010, gross profit for ADESA decreased \$8.4 million, or 2%, to \$464.7 million, compared with \$473.1 million for the year ended December 31, 2009. Gross profit for ADESA was 43.2% of revenue for the year ended December 31, 2010, compared with 43.5% of revenue for the year ended December 31, 2009. The decrease in gross profit as a percentage of revenue for the year ended December 31, 2010, compared with the year ended December 31, 2009 was the result of an increase in ancillary services revenue, which has a lower gross profit than auction services revenue.

**Table of Contents***Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA segment increased \$4.8 million, or 2%, to \$211.9 million for the year ended December 31, 2010, compared with \$207.1 million for the year ended December 31, 2009, primarily due to an increase in stock-based compensation, fluctuations in the Canadian exchange rate, an increase in marketing costs, an increase for costs at acquired sites and a net increase in other miscellaneous expenses. These increases were partially offset by a decrease in incentive compensation and a decrease in professional fees.

*IAAI Results*

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2010	2009
IAAI revenue	\$ 610.4	\$ 553.1
Cost of services*	362.0	352.1
Gross profit*	248.4	201.0
Selling, general and administrative	78.9	65.5
Depreciation and amortization	58.9	58.3
Operating profit	\$ 110.6	\$ 77.2

\* Exclusive of depreciation and amortization

*Revenue*

Revenue from IAAI increased \$57.3 million, or 10%, to \$610.4 million for the year ended December 31, 2010, compared with \$553.1 million for the year ended December 31, 2009. The increase in revenue was primarily a result of an increase in fee revenue due to an increase in average selling price for vehicles sold at auction, and to a lesser extent, revenues associated with acquired sites. For the year ended December 31, 2010, total salvage vehicles sold declined approximately 2%. Online sales volumes for IAAI in 2010 represented approximately half of the total vehicles sold by IAAI.

*Gross Profit*

For the year ended December 31, 2010, gross profit at IAAI increased to \$248.4 million, or 40.7% of revenue, compared with \$201.0 million, or 36.3% of revenue, for the year ended December 31, 2009. The gross profit increase was primarily the result of the increase in fee revenue due to an increase in average selling price for vehicles sold at auction. Cost of services increased primarily as a result of increases in incentive compensation based on the performance of IAAI, expenses associated with costs at acquired sites and increases in yard and auction expenses. These increases were partially offset by a reduction in tow costs.

*Selling, General and Administrative*

Selling, general and administrative expenses at IAAI increased \$13.4 million, or 20%, to \$78.9 million for the year ended December 31, 2010, compared with \$65.5 million for the year ended December 31, 2009. The increase in selling, general and administrative expenses was attributable to increases in stock-based compensation and incentive compensation, as well as increased spending on professional fees and severance, both related to our process improvement initiatives which were launched in the first quarter of 2010.

**Table of Contents****AFC Results**

<i>(Dollars in millions except volumes and per loan amounts)</i>	Year Ended December 31,	
	2010	2009
AFC revenue		
Securitization income	\$	\$ 41.7
Interest and fee income	<b>137.9</b>	48.1
Other revenue	<b>2.0</b>	0.3
Provision for credit losses	<b>(11.2)</b>	(2.1)
Total AFC revenue	<b>128.7</b>	88.0
Cost of services*	<b>28.5</b>	29.8
Gross profit*	<b>100.2</b>	58.2
Selling, general and administrative	<b>18.6</b>	11.6
Depreciation and amortization	<b>25.0</b>	24.7
Operating profit	<b>\$ 56.6</b>	\$ 21.9
Loan transactions	<b>935,578</b>	799,421
Revenue per loan transaction	<b>\$ 138</b>	\$ 110

\* Exclusive of depreciation and amortization  
Revenue

For the year ended December 31, 2010, AFC revenue increased \$40.7 million, or 46%, to \$128.7 million, compared with \$88.0 million for the year ended December 31, 2009. The increase in revenue was the result of a 25% increase in revenue per loan transaction for the year ended December 31, 2010, compared with the same period in 2009 and a 17% increase in loan transactions to 935,578 for the year ended December 31, 2010. In addition, managed receivables increased to \$771.6 million at December 31, 2010 from \$613.0 million at December 31, 2009.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased \$28, or 25%, primarily as a result of a decrease in credit losses for both loans held and sold, an increase in the average loan value, an increase in floorplan fee income, an increase in interest income and an increase in other income.

Accounting Standards Update 2009-16 amended ASC 860, *Transfers and Servicing*, and we adopted the new guidance on January 1, 2010. The new guidance eliminated securitization income accounting and resulted in the recording of interest and fee income and interest expense for the finance receivable transactions under the revolving sale agreement. The impact of this guidance on revenue was a net \$1.4 million reduction of revenue for the first quarter of 2010. The elimination of the gain on sale treatment resulted in a reduction of revenue of \$2.8 million, while the reclassification of interest expense resulted in an offsetting \$1.4 million increase in revenue. Interest expense related to the securitized finance receivables for the year ended December 31, 2010 was \$7.2 million and is included as Interest expense on the consolidated statement of income. Interest expense related to the securitized finance receivables for the year ended December 31, 2009 totaled \$4.7 million and was included in securitization income.

**Gross Profit**

For the year ended December 31, 2010, gross profit for the AFC segment increased \$42.0 million, or 72%, to \$100.2 million, compared with \$58.2 million for the year ended December 31, 2009, primarily as a result of a 46% increase in revenue and a 4% decrease in cost of services. The decrease in cost of services was primarily the result of decreases in collection and lot audit expenses, partially offset by an increase in incentive compensation and other expenses.



**Table of Contents***Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC increased \$7.0 million, or 60%, for the year ended December 31, 2010, compared with the year ended December 31, 2009. The increase was primarily the result of increases in incentive compensation expense, salaries and related employee benefit costs, professional fees and stock-based compensation expense.

*Holding Company Results*

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2010	2009
Selling, general and administrative	\$ 63.8	\$ 80.4
Depreciation and amortization	0.5	1.0
Operating loss	(\$ 64.3)	(\$ 81.4)

*Selling, General and Administrative Expenses*

For the year ended December 31, 2010, selling, general and administrative expenses at the holding company decreased \$16.6 million, or 21%, to \$63.8 million, compared with \$80.4 million for the year ended December 31, 2009, primarily as a result of the termination of our financial advisory fees paid to the Equity Sponsors. We paid the Equity Sponsors a total of \$14.0 million in 2009, including \$10.5 million of termination fees in connection with the termination of our ongoing financial advisory fees with each of them. Selling, general and administrative expenses also decreased 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. These decreases were partially offset by an increase in professional fees and other expenses.

*Overview of Results of KAR Auction Services for the Years Ended December 31, 2009 and 2008:*

<i>(Dollars in millions except per share amounts)</i>	Year Ended December 31,	
	2009	2008
Revenues		
ADESA	\$ 1,088.5	\$ 1,123.4
IAAI	553.1	550.3
AFC	88.0	97.7
Total revenues	1,729.6	1,771.4
Cost of services*	997.3	1,053.0
Gross profit*	732.3	718.4
Selling, general and administrative	364.6	383.7
Depreciation and amortization	172.4	182.8
Goodwill and other intangibles impairment		164.4
Operating profit (loss)	195.3	(12.5)
Interest expense	172.6	215.2
Other (income) expense, net	(11.6)	19.9
Income (loss) before income taxes	34.3	(247.6)
Income taxes	11.1	(31.4)
Net income (loss)	\$ 23.2	(\$ 216.2)



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Net income (loss) per share basic and diluted	\$ 0.21	(\$ 2.02)
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\* Exclusive of depreciation and amortization

For the year ended December 31, 2009, we had revenue of \$1,729.6 million compared with revenue of \$1,771.4 million for the year ended December 31, 2008, a decrease of 2%. Included in the results for the year

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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.

*Depreciation and Amortization*

Depreciation and amortization decreased \$10.4 million, or 6%, to \$172.4 million for the year ended December 31, 2009 compared with the year ended December 31, 2008. The decrease is representative of certain assets becoming fully depreciated as well as a decrease in 2009 capital spending compared to recent years.

*Interest Expense*

Interest expense decreased \$42.6 million, or 20%, to \$172.6 million for the year ended December 31, 2009, compared with interest expense of \$215.2 million for the year ended December 31, 2008. The decrease in interest expense was the result of a decrease in interest rates in 2009, which reduced interest expense on our variable rate debt instruments, as well as payments on Term Loan B of \$59.3 million during 2008 which decreased the outstanding principal balance of our debt. In addition, we prepaid \$250.0 million of Term Loan B in December 2009 further decreasing the outstanding principal balance of our debt.

*Other (Income) Expense*

Other income was \$11.6 million for the year ended December 31, 2009 compared with other expense of \$19.9 million for the year ended December 31, 2008, representing an increase of \$31.5 million. The change in other (income) expense is primarily representative of foreign currency transaction gains in 2009 versus foreign currency transaction losses in 2008, partially offset by a decrease in interest income resulting from a decrease in interest rates in 2009 compared with 2008.

*Income Taxes*

Our effective tax rate increased from 12.7% in 2008 to 32.4% in 2009. The increase in tax rate primarily resulted from the level of pretax earnings (loss) and the nondeductible \$161.5 million goodwill impairment charge at AFC in 2008.

**ADESA Results**

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2009	2008
ADESA revenue	\$ 1,088.5	\$ 1,123.4
Cost of services*	615.4	654.9
Gross profit*	473.1	468.5
Selling, general and administrative	207.1	244.2
Depreciation and amortization	88.4	93.2
Operating profit	\$ 177.6	\$ 131.1

\* Exclusive of depreciation and amortization

*Revenue*

Revenue from ADESA decreased \$34.9 million, or 3%, to \$1,088.5 million for the year ended December 31, 2009, compared with \$1,123.4 million for the year ended December 31, 2008. The decrease in revenue was



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primarily a result of a 2% decrease in revenue per vehicle sold, from approximately \$550 in 2008 to approximately \$540 in 2009, and a less than 1% decrease in the total number of used vehicles sold at ADESA for the year ended December 31, 2009 compared with the year ended December 31, 2008.

The decrease in revenue per vehicle sold was attributable to a decrease in ancillary services such as shop services and other services, which resulted in decreased ADESA revenue of approximately \$25.2 million. In addition, fluctuations in the Canadian exchange rate decreased revenue by approximately \$16.8 million for the year ended December 31, 2009 compared with the year ended December 31, 2008. Partially offsetting the decrease in ancillary services and the impact of the Canadian exchange rate was incremental fee income related to higher used vehicle values and selective fee increases which aggregated \$17.1 million.

The total number of used vehicles sold at ADESA decreased less than 1% for the year ended December 31, 2009 compared with the year ended December 31, 2008, and resulted in a decrease in ADESA revenue of approximately \$10.0 million.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our used vehicle auctions, increased to 66.9% for the year ended December 31, 2009 compared with 60.7% for the year ended December 31, 2008. The increase in conversion rates was representative of a reduced supply of vehicles at auction in 2009 as compared with 2008, combined with relatively consistent demand over that same period.

*Gross Profit*

For the year ended December 31, 2009, gross profit for ADESA increased \$4.6 million, or 1%, to \$473.1 million. Gross profit for ADESA was 43.5% of revenue for the year ended December 31, 2009 compared with 41.7% of revenue for the year ended December 31, 2008. The increase in gross profit as a percent of revenue for the year ended December 31, 2009 compared with the year ended December 31, 2008 is representative of a decrease in lower margin ancillary services as well as reduced labor associated with the higher conversion rates.

*Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA segment decreased \$37.1 million, or 15%, to \$207.1 million for the year ended December 31, 2009 compared with the year ended December 31, 2008, primarily due to a \$10.7 million decrease for the prior year loss on the sale of land related to the sale-leaseback and the separate transaction in Fairburn, Georgia, a \$9.1 million decrease in marketing costs, a \$7.1 million decrease in professional fees, a \$6.9 million decrease in bad debt expense, a \$2.2 million decrease related to fluctuations in the Canadian exchange rate and an increase in gains on the sale of property plant and equipment of \$2.6 million. The decreases to selling, general and administrative expenses were partially offset by an increase in incentive compensation expense and an increase in costs at sites acquired in 2008.

*IAAI Results*

<i>(Dollars in millions)</i>	Year Ended	
	December 31,	
	2009	2008
IAAI revenue	\$ 553.1	\$ 550.3
Cost of services*	352.1	362.9
Gross profit*	201.0	187.4
Selling, general and administrative	65.5	70.1
Depreciation and amortization	58.3	61.6
Operating profit	\$ 77.2	\$ 55.7

\* Exclusive of depreciation and amortization



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*Revenue*

Revenue from IAAI increased \$2.8 million, or 1%, to \$553.1 million for the year ended December 31, 2009, compared with \$550.3 million for the year ended December 31, 2008. The increase in revenue was a result of a 3% increase in salvage vehicles sold during the year ended December 31, 2009, which was partially offset by a decrease in revenue per unit attributable to the decline in average selling price for vehicles sold at salvage auctions during the year ended December 31, 2009. The increase in salvage vehicles sold was attributable to the full-year impact of volumes provided by 2008 acquisitions and greenfields.

*Gross Profit*

For the year ended December 31, 2009, gross profit at IAAI increased to \$201.0 million, or 36% of revenue, compared with \$187.4 million, or 34% of revenue, for the year ended December 31, 2008. Costs of services decreased due to a decline in the value and the number of vehicles sold under the purchase agreement method of sales. In addition, there were cost reductions in outside labor, supplies, travel and auction costs. These reductions were partially offset by increases in occupancy costs related to the addition of facilities as a result of acquisitions and greenfields.

*Selling, General and Administrative*

Selling, general and administrative expenses at IAAI decreased \$4.6 million, or 7%, to \$65.5 million for the year ended December 31, 2009, compared with \$70.1 million for the year ended December 31, 2008. The decrease in selling, general and administrative expenses was attributable to a decrease in integration and travel costs, partially offset by increases in share-based compensation expense and legal fees.

***AFC Results***

<i>(Dollars in millions except volumes and per loan amounts)</i>	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>