KAR Holdings, Inc.
Form 10-Q
November 13, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

Commission File Number: 333-148847

KAR Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**20-8744739**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(Address of principal executive offices, including zip code)

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

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

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

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

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

As of October 31, 2008, 10,685,366 shares of the registrant s common stock, par value $0.01 per share, were outstanding.

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KAR Holdings, Inc.

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The financial statements referred to below include the financial statements of KAR Holdings, Inc. as of and for the three and nine months ended September 30, 2008 and 2007. KAR Holdings, Inc. had no operations until the consummation of the merger of ADESA, Inc. (together with its subsidiaries, ADESA) and combination of Insurance Auto Auctions, Inc. (together with its subsidiaries, IAAI) on April 20, 2007, after which ADESA and IAAI became wholly owned subsidiaries of KAR Holdings, Inc. As such, the historical financial statements of ADESA and IAAI are presented for the period prior to April 20, 2007, as noted below.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

KAR Holdings, Inc.

Consolidated Statements of Operations

(Operations Commenced April 20, 2007)

(In millions)

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating revenues				
ADESA Auction Services	**$ 286.4**	$ 241.4	**$ 862.7**	$ 432.3
IAAI Salvage Services	**135.4**	117.7	**426.0**	208.4
AFC	**22.8**	35.2	**86.5**	63.7
Total operating revenues	**444.6**	394.3	**1,375.2**	704.4
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	**261.4**	221.8	**792.9**	391.1
Selling, general and administrative	**92.7**	82.5	**285.2**	146.3
Depreciation and amortization	**45.0**	39.6	**137.3**	66.8
Goodwill and other intangibles impairment	**164.4**		**164.4**	
Total operating expenses	**563.5**	343.9	**1,379.8**	604.2
Operating profit (loss)	**(118.9)**	50.4	**(4.6)**	100.2
Interest expense	**52.1**	59.0	**161.5**	104.4
Other (income) expense, net	**4.1**	(3.7)	**4.9**	(6.7)
Income (loss) before income taxes	**(175.1)**	(4.9)	**(171.0)**	2.5
Income taxes	**(5.2)**	3.7	**(4.1)**	6.5
Net loss	**($169.9)**	($8.6)	**($166.9)**	($4.0)

See accompanying Notes to Consolidated Financial Statements

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KAR Holdings, Inc.

Consolidated Balance Sheets

(In millions)

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 201.2	$ 204.1
Restricted cash	10.6	16.9
Trade receivables, net of allowances of $9.7 and $6.3	352.8	278.3
Finance receivables, net of allowances of $7.8 and $7.5	198.7	246.9
Retained interests in finance receivables sold	60.8	71.5
Deferred income tax assets	33.0	29.3
Other current assets	46.7	54.8
Total current assets	903.8	901.8
Other assets		
Goodwill	1,517.3	1,617.6
Customer relationships, net of accumulated amortization of $95.7 and $44.9	838.7	844.4
Other intangible assets, net of accumulated amortization of $32.8 and $15.7	254.9	251.4
Unamortized debt issuance costs	72.6	81.6
Other assets	56.8	60.8
Total other assets	2,740.3	2,855.8
Property and equipment, net of accumulated depreciation of $132.7 and $65.8	700.9	773.2
Total assets	$ 4,345.0	$ 4,530.8

See accompanying Notes to Consolidated Financial Statements

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KAR Holdings, Inc.

Consolidated Balance Sheets

(In millions, except share and par value data)

	September 30, 2008 (Unaudited)	December 31, 2007
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	**$ 366.5**	$ 292.8
Accrued employee benefits and compensation expenses	**49.9**	54.8
Accrued interest	**35.7**	16.4
Other accrued expenses	**85.4**	80.1
Current maturities of long-term debt		15.6
Total current liabilities	**537.5**	459.7
Non-current liabilities		
Long-term debt	**2,561.0**	2,601.1
Deferred income tax liabilities	**353.8**	378.1
Other liabilities	**59.3**	78.3
Total non-current liabilities	**2,974.1**	3,057.5
Commitments and contingencies (Note 14)		
Stockholders equity		
Preferred stock, $0.01 par value:		
Authorized shares: 5,000,000		
Issued shares: none		
Common stock, $0.01 par value:		
Authorized shares: 20,000,000		
Issued shares: 10,685,366 in 2008		
10,686,316 in 2007	**0.1**	0.1
Additional paid-in capital	**1,029.4**	1,027.9
Retained deficit	**(208.4)**	(41.5)
Accumulated other comprehensive income	**12.3**	27.1
Total stockholders equity	**833.4**	1,013.6
Total liabilities and stockholders equity	**$ 4,345.0**	$ 4,530.8

See accompanying Notes to Consolidated Financial Statements

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KAR Holdings, Inc.

Consolidated Statement of Stockholders Equity

(In millions)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2007	10.7	$ 0.1	$ 1,027.9	($41.5)	$ 27.1	$ 1,013.6
Comprehensive loss:						
Net loss				(166.9)		(166.9)
Other comprehensive income (loss), net of tax:						
Unrealized gain on interest rate swap					3.9	3.9
Foreign currency translation					(18.7)	(18.7)
Comprehensive loss				(166.9)	(14.8)	(181.7)
Stock-based compensation expense			1.6			1.6
Repurchase of common stock			(0.1)			(0.1)
Balance at September 30, 2008	**10.7**	**$ 0.1**	**$ 1,029.4**	**($208.4)**	**$ 12.3**	**$ 833.4**

See accompanying Notes to Consolidated Financial Statements

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KAR Holdings, Inc.

Consolidated Statements of Cash Flows

(Operations Commenced April 20, 2007)

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2008	2007
Operating activities		
Net loss	**($166.9)**	($4.0)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**137.3**	66.8
Provision for credit losses	**7.1**	1.9
Deferred income taxes	**(27.8)**	
Amortization of debt issuance costs	**10.2**	5.8
Stock-based compensation	**(4.2)**	0.7
Loss (gain) on disposal of fixed assets	**5.6**	(0.2)
Goodwill and other intangibles impairment	**164.4**	
Other non-cash, net	**6.2**	0.9
Changes in operating assets and liabilities, net of acquisitions:		
Finance receivables held for sale	**33.9**	(22.6)
Retained interests in finance receivables sold	**10.7**	(1.6)
Trade receivables and other assets	**(43.9)**	61.1
Accounts payable and accrued expenses	**74.9**	(19.0)
Net cash provided by operating activities	**207.5**	89.8
Investing activities		
Net (increase) decrease in finance receivables held for investment	**8.8**	6.1
Acquisition of businesses, net of cash acquired	**(155.8)**	(23.3)
Purchases of property, equipment and computer software	**(85.7)**	(31.1)
Purchase of other intangibles		(0.1)
Proceeds from sale of property and equipment	**73.4**	0.1
Decrease in restricted cash	**6.3**	9.2
Net cash used by investing activities	**(153.0)**	(39.1)
Financing activities		
Net increase in book overdrafts	**2.5**	63.5
Payments for debt issuance costs	**(1.2)**	(1.0)
Payments on long-term debt	**(55.7)**	(3.9)
Payments on capital leases	**(0.3)**	(0.2)
Contributed capital		3.0
Repurchase of common stock	**(0.1)**	
Net cash (used by) provided by financing activities	**(54.8)**	61.4
Effect of exchange rate changes on cash	**(2.6)**	(0.4)

Net increase (decrease) in cash and cash equivalents	**(2.9)**	111.7
Cash and cash equivalents at beginning of period	**204.1**	232.7
Cash and cash equivalents at end of period	**$ 201.2**	$ 344.4

See accompanying Notes to Consolidated Financial Statements

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements

September 30, 2008 (Unaudited)

Note 1 Organization, Basis of Presentation and Nature of Operations

KAR Holdings, Inc. was organized in the State of Delaware on November 9, 2006. The Company is a holding company organized for the purpose of consummating a merger with ADESA, Inc. and combining Insurance Auto Auctions, Inc. with ADESA. The Company had no operations prior to the merger transactions on April 20, 2007.

Defined Terms

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

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

KAR Holdings or the Company refers to KAR Holdings, Inc., a Delaware corporation that is a wholly owned subsidiary of KAR LLC. KAR Holdings is the parent company of ADESA and IAAI;

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

ADESA refers to ADESA, Inc. and its subsidiaries;

ADESA Auctions refers to the subsidiaries of ADESA, Inc. that provide wholesale vehicle auctions and related vehicle redistribution services for the automotive industry;

AFC refers to ADESA Dealer Services, LLC, an Indiana limited liability corporation, and its subsidiaries including Automotive Finance Corporation; and

IAAI refers to Insurance Auto Auctions, Inc. and its subsidiaries.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. In the opinion of management, the consolidated financial statements reflect all adjustments necessary, consisting of normal recurring accruals, except as otherwise noted, for a fair statement of the Company s financial results for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. A listing of the Company s critical accounting estimates is described in the Critical Accounting Estimates section of Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q and elsewhere in the Notes to the Consolidated

Financial Statements included in the Special Financial Report pursuant to Rule 15d-2 for the year ended December 31, 2007, which includes audited financial statements, and was filed with the Securities and Exchange Commission (SEC) on March 27, 2008.

These consolidated financial statements and condensed notes to consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

for the year ended December 31, 2007 included in the Company s Special Financial Report pursuant to Rule 15d-2 for the year ended December 31, 2007 filed with the Securities and Exchange Commission on March 27, 2008. The 2007 year-end consolidated balance sheet data included in this Form 10-Q was derived from the audited financial statements referenced above, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Nature of operations

As of September 30, 2008, the network of 62 ADESA whole car auctions and 149 IAAI salvage vehicle auctions facilitates the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit Internet buyers to participate in physical auctions. ADESA Auctions and IAAI are leading, national providers of wholesale and salvage vehicle auctions and related vehicle redistribution services for the automotive industry in North America. Redistribution services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA Auctions and IAAI facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the companies generally do not take title to or ownership of the vehicles sold at the auctions. Generally fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

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

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

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing is provided through 88 loan production offices located throughout North America. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from ADESA auctions, IAAI auctions, independent auctions, auctions affiliated with other auction networks and non-auction purchases.

Note 2 Merger Transactions

Merger Transactions and Corporate Structure

On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007 and as part of the agreement, Insurance Auto Auctions, Inc., a leading provider of automotive salvage auction and claims processing services in the United States, was contributed to KAR LLC. Both ADESA and IAAI became wholly owned subsidiaries of KAR Holdings which is owned by KAR LLC. KAR Holdings is the accounting acquirer, and the assets and liabilities of both ADESA and IAAI were recorded at fair value as of April 20, 2007. See Fair Value of Assets Acquired and Liabilities Assumed below for a further discussion.

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Fair Value of Assets Acquired and Liabilities Assumed

The merger was recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. The estimates of the fair value of assets and liabilities are based on valuations, and management believes the valuations and estimates are a reasonable basis for the allocation of the purchase price. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed (*in millions*):

Current assets	$ 1,060.5
Property, plant and equipment	757.3
Goodwill	1,590.0
Customer relationships	864.9
Other intangible assets	259.8
Other assets	46.5
Total assets	$ 4,579.0
Current liabilities	$ 563.3
Long-term debt	685.7
Deferred income tax liabilities	418.7
Other liabilities	72.3
Total liabilities	$ 1,740.0
Net assets acquired	$ 2,839.0

Note 3 New Accounting Standards

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, establishes a fair value hierarchy based on the observability of inputs used to measure fair value and requires expanded disclosures about fair value measurements. This standard, as issued, is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13,* which states that SFAS 157 will not apply to fair value measurements for purposes of lease classification or measurement under SFAS 13. FSP FAS 157-1 does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141 or SFAS 141(R), regardless of whether those assets and liabilities are related to leases. In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. The Company s adoption of the provisions of SFAS 157 on January 1, 2008, with respect to financial assets and liabilities measured at fair value, did not have a material impact on the fair value measurements or the consolidated financial statements for the three and nine months ended September 30, 2008. See Note 12 for additional information. In accordance with FSP FAS 157-2, the Company is currently evaluating the potential impact of applying the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities beginning in 2009, including (but not limited to) the valuation of the Company s reporting units for the purpose of assessing goodwill impairment, the valuation of property and equipment when assessing long-lived asset impairment and the valuation of assets acquired and liabilities assumed in business combinations. In October 2008, the FASB

KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which became effective upon issuance, including periods for which financial statements have not been issued. FSP FAS 157-3 clarifies the application of SFAS 157, which the Company adopted as of January 1, 2008, in a market that is not active. The Company s adoption of the provisions of FSP FAS 157-3 in its determination of fair values as of September 30, 2008 did not have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value and to recognize related unrealized gains and losses in earnings. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This standard is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008 and elected not to apply the fair value option to any existing financial assets or liabilities.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*. The statement establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in an acquisition, at their fair value as of the acquisition date. This standard is effective for annual reporting periods beginning after December 15, 2008. The Company is currently evaluating the impact the adoption of SFAS 141(R) will have on any acquisitions after January 1, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51*. The statement amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of SFAS 160 will have on the consolidated financial statements.

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

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles.* The statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This standard is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS 162 to have a material impact on the consolidated financial statements.

KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Note 4 Acquisitions

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

In February 2008, IAAI purchased the stock of Salvage Disposal Company of Georgia, Verastar, LLC, Auto Disposal of Nashville, Inc., Auto Disposal of Chattanooga, Inc., Auto Disposal of Memphis, Inc., Auto Disposal of Paducah, Inc. and Auto Disposal of Bowling Green, Inc., 11 independently owned salvage auctions in Georgia, North Carolina, Tennessee, Alabama and Kentucky (collectively referred to as Verastar). These site acquisitions expand IAAI s national service coverage and provide additional geographic support to clients who already utilize existing IAAI facilities in the surrounding Southern states. The purchase agreement included contingent payments related to the volume of certain vehicles sold subsequent to the purchase date. The assets of the auction included accounts receivable, operating equipment and customer relationships related to the auction. In addition, the Company entered into operating lease obligations related to certain facilities through 2023. Initial annual lease payments for the facilities are approximately $2.6 million per year. Financial results for these acquisitions have been included in the Company s consolidated financial statements from the date of acquisition.

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

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

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

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

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

In August 2008, ADESA completed the purchase of certain assets of ABC Minneapolis. This acquisition expands ADESA s presence in the Midwest and complements existing auctions at ADESA Fargo and ADESA Sioux Falls. The auction is comprised of approximately 82 acres and includes 6 auction lanes and full-service reconditioning shops providing detail, mechanical and body shop services. The purchased assets of the auction included accounts receivable, operating equipment and customer relationships related to the auction. In addition, the Company entered into an operating lease obligation related to the facility through 2026. Initial annual lease payments for the facility are approximately $0.7 million per year. Financial results for this acquisition have been included in the Company s consolidated financial statements from the date of acquisition.

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

The aggregate purchase price for the 18 businesses acquired in the first nine months of 2008 was approximately $152.9 million. A preliminary purchase price allocation has been recorded for each acquisition and the purchase price of the acquisitions was allocated to the acquired assets and liabilities based upon fair values, including $63.4 million to other intangible assets, representing the fair value of acquired customer relationships, technology and noncompete agreements which will be amortized over their expected useful lives. The preliminary purchase price allocations resulted in aggregate goodwill of $59.6 million. The goodwill was assigned to both the ADESA Auctions reporting segment and the IAAI reporting segment and is expected to be fully deductible for tax purposes. Pro forma financial results reflecting these acquisitions were not materially different from those reported.

Note 5 Stock-Based Compensation Plans

The Company s stock-based compensation expense includes expense associated with KAR Holdings, Inc. service option awards, KAR LLC operating unit awards and Axle LLC operating unit awards. The Company has classified the service options as equity awards and the KAR LLC and Axle LLC operating units as liability awards. The main difference between a liability-classified award and an equity-classified award is that liability-classified awards are remeasured each reporting period at fair value.

The compensation cost that was charged against income for service options was $0.5 million and $1.6 million for the three and nine months ended September 30, 2008, respectively, and the total income tax benefit recognized in the Consolidated Statement of Operations for service options was approximately $0.2 million and

KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

$0.6 million for the three and nine months ended September 30, 2008. The Company recognized a reduction in compensation expense for operating units of approximately $7.3 million for the three months ended September 30, 2008 to reduce expense previously recorded in 2007 and 2008. The $7.3 million discussed above was offset by $1.5 million of compensation expense for operating units recorded in the first six months of 2008, resulting in a net reduction in compensation expense for operating units of approximately $5.8 million for the nine months ended September 30, 2008. The reduction in operating unit compensation expense for the three and nine months ended September 30, 2008 resulted from marking the operating units to fair value. The Company did not capitalize any stock-based compensation cost in the nine months ended September 30, 2008.

The compensation cost that was charged against income for all stock-based compensation plans was $0.7 million for the three months ended September 30, 2007 and for the period April 20, 2007 through September 30, 2007. The total income tax benefit recognized in the Consolidated Statement of Operations for stock-based compensation agreements was approximately $0.2 million for the three months ended September 30, 2007 and for the period April 20, 2007 through September 30, 2007. The Company did not capitalize any stock-based compensation cost in the nine months ended September 30, 2007.

Note 6 Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary (AFC Funding Corporation), established for the purpose of purchasing AFC s finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of up to a maximum of $750 million in undivided interests in certain eligible finance receivables subject to committed liquidity. The agreement expires on April 20, 2012. AFC Funding Corporation had committed liquidity of $600 million at September 30, 2008. Receivables that AFC Funding sells to the bank conduit facility qualify for sales accounting for financial reporting purposes pursuant to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,* and as a result are not reported on the Company s Consolidated Balance Sheet.

At September 30, 2008, AFC managed total finance receivables of $700.3 million, of which $600.5 million had been sold without recourse to AFC Funding Corporation. At December 31, 2007, AFC managed total finance receivables of $847.9 million, of which $746.1 million had been sold without recourse to AFC Funding Corporation. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling $433.0 million and $522.0 million at September 30, 2008 and December 31, 2007, respectively. Finance receivables include $27.3 million and $29.4 million classified as held for sale and $179.2 million and $225.0 million classified as held for investment at September 30, 2008 and December 31, 2007, respectively. Finance receivables classified as held for investment include $59.2 million and $91.0 million related to receivables that were sold to the bank conduit facility that were repurchased by AFC at fair value when they became ineligible under the terms of the collateral agreement with the bank conduit facility at September 30, 2008 and December 31, 2007, respectively. The face amount of these receivables was $69.7 million and $99.3 million at September 30, 2008 and December 31, 2007, respectively.

AFC s allowance for losses of $7.8 million and $7.5 million at September 30, 2008 and December 31, 2007, respectively, includes an estimate of losses for finance receivables held for investment. Additionally, accrued liabilities of $4.7 million and $4.3 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at September 30, 2008 and December 31, 2007, respectively. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

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

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of the Company s credit facility. At September 30, 2008, the Company was in compliance with the covenants in the securitization agreement.

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

	September 30, 2008 Principal Amount of:		Net Credit Losses Three Months Ended	Net Credit Losses Nine Months Ended
(in millions)	Receivables	Receivables Delinquent	September 30, 2008	September 30, 2008
Floorplan receivables	**$ 192.6**	**$ 8.1**	**$ 0.3**	**$ 1.3**
Special purpose loans	**13.9**	**1.5**		
Finance receivables held	**$ 206.5**	**$ 9.6**	**$ 0.3**	**$ 1.3**
Receivables sold	**433.0**			
Retained interests in finance receivables sold	**60.8**			
Total receivables managed	**$ 700.3**			

The net credit losses for receivables sold approximated $9.7 million and $23.9 million for the three and nine months ended September 30, 2008.

	December 31, 2007 Principal Amount of:		Net Credit Losses Three Months Ended	Net Credit Losses From April 20
(in millions)	Receivables	Receivables Delinquent	September 30, 2007	September 30, 2007
Floorplan receivables	$ 234.3	$ 10.2	$ 0.1	$ 0.2
Special purpose loans	20.1			

Finance receivables held	$ 254.4	$ 10.2	$ 0.1	$ 0.2
Receivables sold	522.0			
Retained interests in finance receivables sold	71.5			
Total receivables managed	$ 847.9			

The net credit losses for receivables sold approximated $5.0 million and $7.8 million for the three months ended September 30, 2007 and for the period April 20, 2007 through September 30, 2007.

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The following table summarizes certain cash flows received from and paid to the special purpose subsidiaries:

(in millions)	Nine Months Ended September 30, 2008	For the Period April 20 September 30, 2007
Proceeds from sales of finance receivables	**$ 3,481.6**	$ 2,291.5
Servicing fees received	**$ 12.1**	$ 7.5
Proceeds received on retained interests in finance receivables sold	**$ 81.1**	$ 53.2

The Company s retained interests in finance receivables sold, including a nominal interest only strip, amounted to $60.8 million and $71.5 million at September 30, 2008 and December 31, 2007, respectively. Sensitivities associated with the Company s retained interests were insignificant at all periods presented due to the short-term nature of the asset.

Note 7 Goodwill and Other Intangibles

Goodwill consisted of the following at September 30, 2008 (*in millions*):

	ADESA Auctions	IAAI	AFC	Total
Balance at January 1, 2008	$ 806.7	$ 452.4	$ 358.5	$ 1,617.6
Increase for 2008 acquisitions	16.1	43.5		59.6
Impairment			(161.5)	(161.5)
Other	0.6	0.7	0.3	1.6
Balance at September 30, 2008	**$ 823.4**	**$ 496.6**	**$ 197.3**	**$ 1,517.3**

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. The Company tests goodwill and tradenames for impairment at the reporting unit level annually in the second quarter, or more frequently as impairment indicators arise. In light of the overall economy and in particular the automotive finance industries which continue to face severe pressures, AFC and its customer dealer base have been negatively impacted. In addition, AFC has been negatively impacted by reduced interest rate spreads. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC has tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC throughout 2008 as compared to 2007. Based on this trend, the forecasted performance has been revised. In the third quarter of 2008, a preliminary noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit. The fair value of that reporting unit was estimated using the expected present value of future cash flows. In addition, in the third quarter of 2008, a preliminary noncash tradename charge of approximately $2.9 million was recorded in the AFC reporting unit, reducing its carrying value of $11.6 million to its fair value of $8.7 million. The fair value of the tradename was estimated using the royalty savings method, a form of the income approach. The Company expects to finalize the impairment analyses during the fourth quarter. There could be adjustments to the preliminary charges once the analyses are completed. Any adjustments, which are not expected to be significant, will be recorded during the quarter ended December 31, 2008.

KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Note 8 Long-Term Debt

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

	Interest Rate	Maturity	September 30, 2008	December 31, 2007
Term Loan B	LIBOR + 2.25%	October 19, 2013	**$ 1,501.5**	$ 1,557.2
$300 million revolving credit facility	LIBOR + 2.25%	April 19, 2013		
Floating rate senior notes	LIBOR + 4.00%	May 01, 2014	**150.0**	150.0
Senior notes	8.75%	May 01, 2014	**450.0**	450.0
Senior subordinated notes	10%	May 01, 2015	**425.0**	425.0
Capital lease obligation	5.0%	December 01, 2013	**34.5**	34.5
Canadian line of credit	Prime + 0.5% or BA + 2%	August 31, 2009		
Total debt			**2,561.0**	2,616.7
Less current portion of long-term debt				15.6
Long-term debt			**$ 2,561.0**	$ 2,601.1

Credit Facilities

As part of the merger transactions, the Company entered into new senior secured credit facilities, comprised of a $300.0 million revolving credit facility and a $1,565.0 million term loan. Letters of credit reducing the available line of credit were $19.5 million at September 30, 2008. In accordance with the terms in the Credit Agreement, the Company prepaid approximately $11.3 million of the term loan in August 2008 with proceeds received from a securitization sale of certain U.S. dollar denominated receivables and related assets. In addition, the Company prepaid approximately $36.6 million of the term loan in September 2008 with proceeds received from the sale-leaseback transaction, as described in Note 10. The prepayments were credited to prepay in direct order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of the term loan, and thereafter to the remaining scheduled quarterly installments of the term loan on a pro rata basis. As such, there are no scheduled quarterly installments due on the term loan until March 31, 2011.

In addition, commencing with the fiscal year ending December 31, 2008, the Company is subject to a potential prepayment on the term loan as described in the following sentence. If there is any excess cash flow, as defined in the loan documents for the Company s senior secured credit facility, the Company shall prepay the term loan in an amount equal to 50% of the excess cash flow on or before the 105^{th} day following the end of the fiscal year. The senior secured credit facilities are guaranteed by KAR Holdings, LLC and each of the Company s direct and indirect present and future material domestic subsidiaries, subject to certain exceptions (excluding among others, AFC Funding Corporation). The senior secured credit facilities are secured by a perfected first priority security interest in, and mortgages on, all present and future tangible and intangible assets of the Company and the guarantors, and the capital stock of the Company and each of its direct and indirect material domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries.

The Credit Agreement includes covenants that, among other things, limit or restrict the Company s and its subsidiaries abilities to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, including the senior notes, pay dividends, create liens, make equity or debt investments, make acquisitions, modify the terms of the indenture, engage in mergers, make capital expenditures and engage

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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in certain transactions with affiliates. In addition, the senior secured credit facilities are subject to a senior secured leverage ratio test, provided there are revolving commitments outstanding. There were no revolving commitments outstanding at September 30, 2008. The Company was in compliance with the covenants in the credit facility at September 30, 2008.

Note 9 Derivatives

The Credit Agreement of KAR Holdings requires that at least 50% of the aggregate principal amount of the notes and the term loans be fixed by means of interest rate protection for an initial period of not less than 2 years. As such, the Company uses an interest rate swap agreement to manage its exposure to interest rate movements. In July 2007, the Company entered into an interest rate swap agreement with a notional amount of $800 million to manage its exposure to interest rate movements on its variable rate Term Loan B credit facility. The interest rate swap agreement matures on June 30, 2009 and effectively results in a fixed LIBOR interest rate of 5.345% on $800 million of the Term Loan B credit facility.

The Company has designated its interest rate swap agreement as a cash flow hedge. The fair value of the interest rate swap agreement is estimated using pricing models widely used in financial markets and represents the estimated amount the Company would receive or pay to terminate the agreement at the reporting date. At September 30, 2008, the fair value of the interest rate swap agreement was an $11.7 million unrealized loss recorded in Other accrued expenses on the Consolidated Balance Sheet. At December 31, 2007, the fair value of the interest rate swap agreement was a $17.9 million unrealized loss recorded in Other liabilities on the Consolidated Balance Sheet. Changes in the fair value of interest rate swap agreements designated as cash flow hedges are recorded in Other comprehensive income . Unrealized gains or losses on the interest rate swap agreement are included as a component of Accumulated other comprehensive income . At September 30, 2008, there was a net unrealized loss totaling $7.4 million, net of tax benefits of $4.3 million. At December 31, 2007, there was a net unrealized loss totaling $11.3 million, net of tax benefits of $6.6 million.

Note 10 Sale-Leaseback Agreement

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

The aggregate sales price for the ADESA Entities interest in the subject properties was $81.9 million. The Company received net cash proceeds of approximately $73.1 million from the closing of the sale-leaseback of the first seven locations on September 4, 2008, resulting in a net loss of $5.3 million which has been recorded in Selling, general and administrative expenses on the Consolidated Statement of Operations. In addition, the Company received net cash proceeds of approximately $7.4 million from the closing of the sale-leaseback in Fairburn, Georgia on October 3, 2008. The Company utilized 50% of the net proceeds to prepay the term loan in accordance with terms of its Credit Agreement.

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

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

Note 11 Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (*in millions*):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	For the Period April 20 September 30, 2007
Net loss	**($169.9)**	($8.6)	**($166.9)**	($4.0)
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	**(11.0)**	19.1	**(18.7)**	34.2
Unrealized gain (loss) on interest rate swap	**4.0**	(6.7)	**3.9**	(6.7)
Comprehensive income (loss)	**($176.9)**	$ 3.8	**($181.7)**	$ 23.5

The composition of Accumulated other comprehensive income at September 30, 2008 consisted of the net unrealized loss on the interest rate swap of $7.4 million, a $0.2 million unrealized gain on postretirement benefit obligation and foreign currency translation gains of $19.5 million. The composition of Accumulated other comprehensive income at December 31, 2007 consisted of the net unrealized loss on the interest rate swap of $11.3 million, a $0.2 million unrealized gain on postretirement benefit obligation and foreign currency translation gains of $38.2 million.

Note 12 Fair Value Measurements

As discussed in Note 3, on January 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements*, for financial assets and liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The standard establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities, such as models or other valuation methodologies.

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Level 3 Unobservable inputs that are based on the Company s assumptions, are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the Company s own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include instruments for which the determination of fair value requires significant management judgment or estimation.

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 as of September 30, 2008 (*in millions*):

Description	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Retained interest	$ 60.8	$	$	$ 60.8
Liabilities:				
Interest rate swap	$ 11.7	$	$ 11.7	$

Retained Interest representative of the retained interests in finance receivables sold. The fair value of the retained interests is based upon the Company s estimates of future cash flows, using assumptions that market participants would use to value such investments, including estimates of anticipated credit losses over the life of the finance receivables sold. The cash flows were discounted using a market discount rate. The recorded fair value, however, requires significant management judgment or estimation and may not necessarily represent what the Company would receive in an actual sale of the receivables.

Interest Rate Swap under the interest rate swap agreement, the Company pays a fixed LIBOR rate on a portion of the Term Loan B credit facility and receives a variable LIBOR rate. The fair value of the interest rate swap is based on quoted market prices for similar instruments from a commercial bank.

Note 13 Segment Information

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information,* requires reporting of segment information that is consistent with the manner in which the chief operating decision maker operates and views the Company. KAR Holdings has three reportable business segments: ADESA Auctions, IAAI and AFC. These reportable segments offer different services and are managed separately based on the fundamental differences in their operations.

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

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KAR Holdings, Inc.

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September 30, 2008 (Unaudited)

Financial information regarding the KAR Holdings reportable segments is set forth below for the three months ended September 30, 2008 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 286.4	$ 135.4	$ 22.8	$	$ 444.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	162.1	90.0	9.3		261.4
Selling, general and administrative	63.9	18.3	3.7	6.8	92.7
Depreciation and amortization	23.0	15.4	6.2	0.4	45.0
Goodwill and other intangibles impairment			164.4		164.4
Total operating expenses	249.0	123.7	183.6	7.2	563.5
Operating profit (loss)	37.4	11.7	(160.8)	(7.2)	(118.9)
Interest expense	0.1	0.2		51.8	52.1
Other (income) expense, net	(0.8)	(0.1)		5.0	4.1
Intercompany	11.1	10.0	(0.5)	(20.6)	
Income (loss) before income taxes	27.0	1.6	(160.3)	(43.4)	(175.1)
Income taxes	12.3	0.2	0.9	(18.6)	(5.2)
Net income (loss)	$ 14.7	$ 1.4	($161.2)	($24.8)	($169.9)
Assets	$ 2,254.0	$ 1,162.6	$ 711.4	$ 217.0	$ 4,345.0

Financial information regarding the KAR Holdings reportable segments is set forth below for the three months ended September 30, 2007 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 241.4	$ 117.7	$ 35.2	$	$ 394.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	135.2	78.7	7.9		221.8
Selling, general and administrative	50.3	15.0	2.9	14.3	82.5
Depreciation and amortization	18.5	13.9	7.0	0.2	39.6
Total operating expenses	204.0	107.6	17.8	14.5	343.9
Operating profit (loss)	37.4	10.1	17.4	(14.5)	50.4

Interest expense (income)	0.5	(0.1)		58.6	59.0
Other (income) expense, net	(1.4)	(0.1)		(2.2)	(3.7)
Intercompany	(3.1)		0.4	2.7	
Income (loss) before income taxes	41.4	10.3	17.0	(73.6)	(4.9)
Income taxes	16.2	3.6	6.5	(22.6)	3.7
Net income (loss)	$ 25.2	$ 6.7	$ 10.5	($51.0)	($8.6)

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KAR Holdings, Inc.

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September 30, 2008 (Unaudited)

Financial information regarding the KAR Holdings reportable segments is set forth below for the nine months ended September 30, 2008 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 862.7	$ 426.0	$ 86.5	$	$ 1,375.2
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	492.2	273.5	27.2		792.9
Selling, general and administrative	181.1	52.7	12.6	38.8	285.2
Depreciation and amortization	69.1	46.6	19.2	2.4	137.3
Goodwill and other intangibles impairment			164.4		164.4
Total operating expenses	742.4	372.8	223.4	41.2	1,379.8
Operating profit (loss)	120.3	53.2	(136.9)	(41.2)	(4.6)
Interest expense	1.1	0.1		160.3	161.5
Other (income) expense, net	(2.5)	(0.5)		7.9	4.9
Intercompany	30.5	28.3	0.2	(59.0)	
Income (loss) before income taxes	91.2	25.3	(137.1)	(150.4)	(171.0)
Income taxes	37.1	9.9	9.8	(60.9)	(4.1)
Net income (loss)	$ 54.1	$ 15.4	($146.9)	($89.5)	($166.9)

Financial information regarding the KAR Holdings reportable segments is set forth below for the period April 20, 2007 through September 30, 2007 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 432.3	$ 208.4	$ 63.7	$	$ 704.4
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	239.4	137.7	14.0		391.1
Selling, general and administrative	88.8	26.7	6.3	24.5	146.3
Depreciation and amortization	31.0	23.1	11.7	1.0	66.8
Total operating expenses	359.2	187.5	32.0	25.5	604.2
Operating profit (loss)	73.1	20.9	31.7	(25.5)	100.2
Interest expense (income)	0.9	(0.2)		103.7	104.4
Other (income) expense, net	(3.0)	(0.4)		(3.3)	(6.7)
Intercompany	(4.9)	0.1	0.8	4.0	

Income (loss) before income taxes	80.1	21.4	30.9	(129.9)	2.5
Income taxes	31.0	7.9	11.9	(44.3)	6.5
Net income (loss)	$ 49.1	$ 13.5	$ 19.0	($85.6)	($4.0)

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Note 14 Commitments and Contingencies

The Company is involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. The Company accrues an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in Other accrued expenses and Other liabilities at undiscounted amounts and generally exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information become available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on the Company s operating results in that period. Legal fees are expensed as incurred.

The Company has accrued, as appropriate, for environmental remediation costs anticipated to be incurred at certain of its auction facilities. Liabilities for environmental matters included in Other accrued expenses and Other liabilities were $1.3 million and $1.9 million at September 30, 2008 and December 31, 2007, respectively. No amounts have been accrued as receivables for potential reimbursement or recoveries to offset this liability.

The Company stores a significant number of vehicles owned by various customers that are consigned to the Company to be auctioned. The Company is contingently liable for each consigned vehicle until the eventual sale or other disposition, subject to certain natural disaster exceptions. Individual stop loss and aggregate insurance coverage is maintained on the consigned vehicles. These consigned vehicles are not included in the Consolidated Balance Sheets.

In the normal course of business, the Company also enters into various other guarantees and indemnities in its relationships with suppliers, service providers, customers and others. These guarantees and indemnifications do not materially impact the Company s financial condition or results of operations, but indemnifications associated with the Company s actions generally have no dollar limitations and currently cannot be quantified.

As noted above, the Company is involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Such litigation is generally not, in the opinion of management, likely to have a material adverse effect on the Company s financial condition, results of operations or cash flows.

Note 15 Supplemental Guarantor Information

The Company s obligations related to its term loan, revolver, 10% senior subordinated notes, 8 3/4% senior notes and floating rate senior notes are guaranteed on a full, unconditional, joint and several basis by certain direct and indirect present and future domestic subsidiaries (the Guarantor Subsidiaries). AFC Funding Corporation and all foreign subsidiaries of the Company are not guarantors (the Non-Guarantor Subsidiaries). The following financial information sets forth, on a condensed consolidating basis, the balance sheets, statements of income and statement of cash flows as of and for the three and nine months ended September 30, 2008 for KAR Holdings, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at KAR Holdings on a consolidated basis.

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

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Condensed Consolidating Statement of Operations

For the Three Months Ended September 30, 2008

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 344.4	$ 100.2	$	$ 444.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		220.3	41.1		261.4
Selling, general and administrative	(6.0)	86.1	12.6		92.7
Depreciation and amortization		39.2	5.8		45.0
Goodwill and other intangibles impairment		164.4			164.4
Total operating expenses	(6.0)	510.0	59.5		563.5
Operating profit (loss)	6.0	(165.6)	40.7		(118.9)
Interest expense	51.8	0.3			52.1
Other (income) expense, net		4.5	(0.4)		4.1
Intercompany charges	(17.7)	5.8	11.9		
Income (loss) before income taxes	(28.1)	(176.2)	29.2		(175.1)
Income taxes	(12.1)	(5.6)	12.5		(5.2)
Net income (loss)	($16.0)	($170.6)	$ 16.7	$	($169.9)

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Condensed Consolidating Statement of Operations

For the Nine Months Ended September 30, 2008

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 1,062.3	$ 312.9	$	$ 1,375.2
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		665.3	127.6		792.9
Selling, general and administrative	(2.0)	249.9	37.3		285.2
Depreciation and amortization		119.5	17.8		137.3
Goodwill and other intangibles impairment		164.4			164.4
Total operating expenses	(2.0)	1,199.1	182.7		1,379.8
Operating profit (loss)	2.0	(136.8)	130.2		(4.6)
Interest expense	160.3	1.2			161.5
Other (income) expense, net		6.1	(1.2)		4.9
Intercompany charges	(51.3)	20.0	31.3		
Income (loss) before income taxes	(107.0)	(164.1)	100.1		(171.0)
Income taxes (benefit)	(43.2)	(0.2)	39.3		(4.1)
Net income (loss)	($63.8)	($163.9)	$ 60.8	$	($166.9)

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Condensed Consolidating Balance Sheet

As of September 30, 2008

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$	$ 170.8	$ 30.4	$	$ 201.2
Restricted cash		3.6	7.0		10.6
Trade receivables, net of allowances		318.3	49.9	(15.4)	352.8
Finance receivables, net of allowances		2.4	196.3		198.7
Retained interests in finance receivables sold			60.8		60.8
Deferred income tax assets	4.4	28.6			33.0
Other current assets	0.3	39.2	7.2		46.7
Total current assets	4.7	562.9	351.6	(15.4)	903.8
Other assets					
Investments in and advances to affiliates, net	2,804.5	24.3	43.6	(2,872.4)	
Goodwill		1,513.7	3.6		1,517.3
Customer relationships, net of accumulated amortization		716.5	122.2		838.7
Other intangible assets, net of accumulated amortization		246.4	8.5		254.9
Unamortized debt issuance costs	72.6				72.6
Other assets		55.6	1.2		56.8
Total other assets	2,877.1	2,556.5	179.1	(2,872.4)	2,740.3
Property and equipment, net of accumulated depreciation		557.5	143.4		700.9
Total assets	$ 2,881.8	$ 3,676.9	$ 674.1	($2,887.8)	$ 4,345.0

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KAR Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2008 (Unaudited)

Condensed Consolidating Balance Sheet

As of September 30, 2008

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$	$ 350.8	$ 31.1	($15.4)	$ 366.5
Accrued employee benefits and compensation expenses		43.8	6.1		49.9
Accrued interest	35.7				