

INSURANCE AUTO AUCTIONS, INC

Form 424B3

August 04, 2010

**Table of Contents**

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-166047

PROSPECTUS SUPPLEMENT NO. 2

(to Prospectus dated April 22, 2010)

**KAR AUCTION SERVICES, INC.**

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

**\$450,000,000 8¾% Senior Notes Due 2014**

**\$199,408,000 10% Senior Subordinated Notes Due 2015**

Attached hereto and incorporated by reference herein is our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, filed with the Securities and Exchange Commission on August 4, 2010. You should read this Prospectus Supplement No. 2 in connection with the prospectus, dated April 22, 2010, including the prospectus supplement dated May 7, 2010. This Prospectus Supplement No. 2 is qualified by reference to the prospectus, including the prospectus supplement dated May 7, 2010, except to the extent that the information in this Prospectus Supplement No. 2 supersedes the information contained therein.

SEE RISK FACTORS BEGINNING ON PAGE 6 OF THE PROSPECTUS AND UNDER ITEM 1A IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2009 FOR A DISCUSSION OF CERTAIN RISKS YOU SHOULD CONSIDER BEFORE INVESTING IN THE NOTES.

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

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

GOLDMAN, SACHS & CO.

August 4, 2010

Table of Contents

**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 June 30, 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)

Edgar Filing: INSURANCE AUTO AUCTIONS, INC - Form 424B3

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**13085 Hamilton Crossing Boulevard**

**Carmel, Indiana 46032**

(Address of principal executive offices, including zip code)

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

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

As of July 31, 2010, 134,745,535 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

---

**Table of Contents**

**KAR Auction Services, Inc.**

**Table of Contents**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <b><u>Financial Statements</u></b>	
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statement of Stockholders' Equity</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	34
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	54
Item 4. <b><u>Controls and Procedures</u></b>	55
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <b><u>Legal Proceedings</u></b>	56
Item 1A. <b><u>Risk Factors</u></b>	56
Item 6. <b><u>Exhibits</u></b>	56
<b><u>Signatures</u></b>	57
<b><u>Exhibit Index</u></b>	58

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****KAR Auction Services, Inc.****Consolidated Statements of Income***(In millions)**(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating revenues				
ADESA Auction Services	\$ 280.1	\$ 279.5	\$ 553.7	\$ 567.8
IAAI Salvage Services	157.3	139.0	316.1	277.0
AFC	32.6	20.6	58.6	36.8
<b>Total operating revenues</b>	<b>470.0</b>	<b>439.1</b>	<b>928.4</b>	<b>881.6</b>
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	251.7	246.6	507.7	515.5
Selling, general and administrative	90.8	87.1	185.8	172.9
Depreciation and amortization	41.8	42.3	85.1	88.3
<b>Total operating expenses</b>	<b>384.3</b>	<b>376.0</b>	<b>778.6</b>	<b>776.7</b>
Operating profit	85.7	63.1	149.8	104.9
Interest expense	35.9	46.9	70.8	93.5
Other (income) expense, net	1.3	(6.2)	(1.6)	(4.5)
Loss on extinguishment of debt			25.3	
Income before income taxes	48.5	22.4	55.3	15.9
Income taxes	19.9	9.6	18.6	6.6
<b>Net income</b>	<b>\$ 28.6</b>	<b>\$ 12.8</b>	<b>\$ 36.7</b>	<b>\$ 9.3</b>
Net income per share basic and diluted	\$ 0.21	\$ 0.12	\$ 0.27	\$ 0.09

See accompanying Notes to Consolidated Financial Statements

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

	June 30, 2010 <i>(unaudited)</i>	December 31, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 289.4	\$ 363.9
Restricted cash	8.3	9.3
Trade receivables, net of allowances of \$6.3 and \$6.9	346.1	250.4
Finance receivables, net of allowances	112.9	150.3
Finance receivables securitized, net of allowances	571.2	
Retained interests in finance receivables sold		89.8
Deferred income tax assets	42.6	37.3
Other current assets	46.4	40.9
<b>Total current assets</b>	<b>1,416.9</b>	<b>941.9</b>
<b>Other assets</b>		
Goodwill	1,528.3	1,528.1
Customer relationships, net of accumulated amortization of \$217.1 and \$182.7	717.2	753.3
Other intangible assets, net of accumulated amortization of \$78.0 and \$62.9	263.8	266.8
Unamortized debt issuance costs	48.3	61.6
Other assets	12.9	16.4
<b>Total other assets</b>	<b>2,570.5</b>	<b>2,626.2</b>
Property and equipment, net of accumulated depreciation of \$266.9 and \$233.4	666.3	683.2
<b>Total assets</b>	<b>\$ 4,653.7</b>	<b>\$ 4,251.3</b>

See accompanying Notes to Consolidated Financial Statements

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

	June 30, 2010 <i>(unaudited)</i>	December 31, 2009
<b>Liabilities and Stockholders Equity</b>		
<b><i>Current liabilities</i></b>		
Accounts payable	\$ 408.3	\$ 262.7
Accrued employee benefits and compensation expenses	51.4	56.4
Accrued interest	11.6	14.8
Other accrued expenses	77.6	80.2
Income taxes payable	3.1	2.7
Obligations collateralized by finance receivables	473.4	
Current maturities of long-term debt		225.6
Total current liabilities	1,025.4	642.4
<b><i>Non-current liabilities</i></b>		
Long-term debt	2,019.0	2,047.3
Deferred income tax liabilities	323.6	328.2
Other liabilities	109.7	91.9
Total non-current liabilities	2,452.3	2,467.4
Commitments and contingencies (Note 12)		
<b><i>Stockholders equity</i></b>		
Preferred stock, \$0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none		
Common stock, \$0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
June 30, 2010: 134,672,003		
December 31, 2009: 134,509,710	1.4	1.4
Additional paid-in capital	1,363.7	1,355.2
Retained deficit	(197.8)	(234.5)
Accumulated other comprehensive income	8.7	19.4
Total stockholders equity	1,176.0	1,141.5
Total liabilities and stockholders equity	\$ 4,653.7	\$ 4,251.3

See accompanying Notes to Consolidated Financial Statements



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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2009</b>	134.5	\$ 1.4	\$ 1,355.2	(\$ 234.5)	\$ 19.4	\$ 1,141.5
Comprehensive income:						
Net income				36.7		36.7
Other comprehensive income (loss), net of tax:						
Unrealized loss on interest rate derivatives					(5.8)	(5.8)
Foreign currency translation					(4.9)	(4.9)
Comprehensive income				36.7	(10.7)	26.0
Issuance of common stock under stock plans	0.2		1.3			1.3
Stock-based compensation expense			7.2			7.2
<b>Balance at June 30, 2010</b>	<b>134.7</b>	<b>\$ 1.4</b>	<b>\$ 1,363.7</b>	<b>(\$ 197.8)</b>	<b>\$ 8.7</b>	<b>\$ 1,176.0</b>

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

**KAR Auction Services, Inc.**

**Consolidated Statements of Cash Flows**

*(In millions)*

*(Unaudited)*

**Six Months  
Ended  
June 30,**