KAR Auction Services, Inc.
Form 10-Q
November 03, 2011
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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, 2011

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	**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 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 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 x 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 x

As of October 31, 2011, 136,267,897 shares of the registrant s common stock, par value $0.01 per share, were outstanding.

KAR Auction Services, Inc.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

KAR Auction Services, Inc.

Consolidated Statements of Income

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Operating revenues				
ADESA Auction Services	**$ 241.3**	$ 267.4	**$ 767.1**	$ 821.1
IAAI Salvage Services	**164.7**	142.3	**513.8**	458.4
AFC	**41.0**	35.6	**119.4**	94.2
Total operating revenues	**447.0**	445.3	**1,400.3**	1,373.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	**245.7**	241.6	**761.6**	749.3
Selling, general and administrative	**79.9**	90.4	**280.9**	276.2
Depreciation and amortization	**43.8**	42.2	**131.5**	127.3
Total operating expenses	**369.4**	374.2	**1,174.0**	1,152.8
Operating profit	**77.6**	71.1	**226.3**	220.9
Interest expense	**29.4**	35.5	**112.3**	106.3
Other (income) expense, net	**1.3**	(1.1)	**(6.0)**	(2.7)
Loss on extinguishment of debt	**0**	0	**53.5**	25.3
Income before income taxes	**46.9**	36.7	**66.5**	92.0
Income taxes	**14.7**	11.1	**8.8**	29.7
Net income	**$ 32.2**	$ 25.6	**$ 57.7**	$ 62.3
Net income per share				
Basic	**$ 0.24**	$ 0.19	**$ 0.42**	$ 0.46
Diluted	**$ 0.23**	$ 0.19	**$ 0.42**	$ 0.46

See accompanying Notes to Consolidated Financial Statements

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KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions)

(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	**$ 203.6**	$ 119.1
Restricted cash	**6.7**	8.6
Trade receivables, net of allowances of $6.0 and $6.3	**318.0**	271.9
Finance receivables, net of allowances	**124.6**	126.2
Finance receivables securitized, net of allowances	**669.5**	635.7
Deferred income tax assets	**39.3**	40.8
Other current assets	**48.4**	52.4
Total current assets	**1,410.1**	1,254.7
Other assets		
Goodwill	**1,555.8**	1,554.1
Customer relationships, net of accumulated amortization of $306.5 and $254.3	**653.1**	712.6
Other intangible assets, net of accumulated amortization of $125.4 and $98.0	**274.2**	269.8
Unamortized debt issuance costs	**30.5**	41.4
Other assets	**11.6**	11.9
Total other assets	**2,525.2**	2,589.8
Property and equipment, net of accumulated depreciation of $344.7 and $299.8	**676.3**	680.5
Total assets	**$ 4,611.6**	$ 4,525.0

See accompanying Notes to Consolidated Financial Statements

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KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions, except share and per share data)

(Unaudited)

	September 30, 2011	December 31, 2010
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	**$ 384.7**	$ 287.7
Accrued employee benefits and compensation expenses	**50.1**	57.2
Accrued interest	**1.5**	10.1
Other accrued expenses	**75.1**	88.8
Income taxes payable	**8.4**	2.9
Obligations collateralized by finance receivables	**542.7**	520.1
Current maturities of long-term debt	**17.0**	0
Total current liabilities	**1,079.5**	966.8
Non-current liabilities		
Long-term debt	**1,820.8**	1,875.7
Deferred income tax liabilities	**318.3**	326.3
Other liabilities	**80.1**	111.6
Total non-current liabilities	**2,219.2**	2,313.6
Commitments and contingencies (Note 10)		
Stockholders equity		
Preferred stock, $0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	**0**	0
Common stock, $0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
September 30, 2011: 136,265,435		
December 31, 2010: 135,493,537	**1.4**	1.4
Additional paid-in capital	**1,398.3**	1,381.6
Retained deficit	**(107.2)**	(164.9)
Accumulated other comprehensive income	**20.4**	26.5
Total stockholders equity	**1,312.9**	1,244.6
Total liabilities and stockholders equity	**$ 4,611.6**	$ 4,525.0

See accompanying Notes to Consolidated Financial Statements

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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 (Loss)	Total
Balance at December 31, 2010	135.5	$ 1.4	$ 1,381.6	($ 164.9)	$ 26.5	$ 1,244.6
Comprehensive income:						
Net income				57.7		57.7
Other comprehensive income, net of tax:						
Unrealized gain on interest rate derivatives					1.6	1.6
Early termination of swap agreement					9.0	9.0
Foreign currency translation					(16.7)	(16.7)
Comprehensive income						51.6
Issuance of common stock under stock plans	0.8		6.0			6.0
Stock-based compensation expense			10.7			10.7
Balance at September 30, 2011	**136.3**	**$ 1.4**	**$ 1,398.3**	**($ 107.2)**	**$ 20.4**	**$ 1,312.9**

See accompanying Notes to Consolidated Financial Statements

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KAR Auction Services, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities		
Net income	**$ 57.7**	$ 62.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**131.5**	127.3
Provision for credit losses	**5.1**	8.3
Deferred income taxes	**(11.8)**	2.7
Amortization of debt issuance costs	**8.3**	10.3
Stock-based compensation	**10.7**	12.4
Contingent consideration adjustment	**(4.6)**	0
(Gain) loss on disposal of fixed assets	**(0.2)**	0.2
Loss on extinguishment of debt	**53.5**	25.3
Other non-cash, net	**6.4**	9.8
Changes in operating assets and liabilities, net of acquisitions:		
Finance receivables held for sale	**0**	50.2
Retained interests in finance receivables sold	**0**	89.8
Trade receivables and other assets	**(44.9)**	(109.4)
Accounts payable and accrued expenses	**(6.2)**	128.8
Net cash provided by operating activities	**205.5**	418.0
Investing activities		
Net increase in finance receivables held for investment	**(40.1)**	(609.4)
Acquisition of businesses and related contingent payments, net of cash acquired	**(6.9)**	(2.7)
Purchases of property, equipment and computer software	**(64.2)**	(41.9)
Purchases of other intangibles	**0**	(0.5)
Proceeds from the sale of property and equipment	**0.2**	2.0
Decrease in restricted cash	**1.9**	3.2
Net cash used by investing activities	**(109.1)**	(649.3)
Financing activities		
Net increase in book overdrafts	**58.4**	37.3
Net increase in obligations collateralized by finance receivables	**22.6**	479.0
Proceeds from long-term debt	**1,691.5**	0
Payments for debt issuance costs	**(30.6)**	0
Payments on long-term debt	**(1,148.8)**	(28.3)
Payment for early extinguishment of debt	**(600.7)**	(243.6)
Payments on capital leases	**(6.1)**	(3.4)
Initial net investment for interest rate caps	**(1.1)**	0
Issuance of common stock under stock plans	**6.0**	3.7
Excess tax benefits from stock-based compensation	**0**	2.2
Net cash (used by) provided by financing activities	**(8.8)**	246.9
Effect of exchange rate changes on cash	**(3.1)**	0.3

Net increase in cash and cash equivalents	**84.5**	15.9
Cash and cash equivalents at beginning of period	**119.1**	363.9
Cash and cash equivalents at end of period	**$ 203.6**	$ 379.8
Cash paid for interest	**$ 109.8**	$ 80.0
Cash paid for taxes, net of refunds	**$ 29.9**	$ 30.9

See accompanying Notes to Consolidated Financial Statements

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

Note 1 Basis of Presentation and Nature of Operations

Defined Terms

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

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

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

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

Axle LLC refers to Axle Holdings II, LLC, which is owned by affiliates of certain of the Equity Sponsors (Kelso & Company and Parthenon), certain members or former members of 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 May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent;

2007 Credit Agreement refers to the previous 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 and November 11, 2010. The 2007 Credit Agreement was terminated concurrently with our entry into the Credit Agreement described above;

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

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

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

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

Basis of Presentation

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

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

necessary, generally consisting of normal recurring accruals, for a fair statement of our 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.

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 for the year ended December 31, 2010 included in our Annual Report on Form 10-K for the year ended December 31, 2010. The 2010 year-end consolidated balance sheet data included in this Form 10-Q was derived from the audited financial statements referenced above, but does not include all disclosures required by U.S. GAAP.

Business and Nature of Operations

As of September 30, 2011, we have a network of 70 ADESA whole car auctions and 159 IAAI salvage vehicle auctions which facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, and 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 remarketing services for the automotive industry in North America. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA Auctions and IAAI facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership to substantially all 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 one of the two largest providers of salvage vehicle auctions and related services in North America. The salvage auctions facilitate the remarketing of damaged vehicles that are designated as 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 was provided through 89 loan production offices located throughout North America at September 30, 2011. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAAI, independent auctions and auctions affiliated with other auction networks.

Note 2 New Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. The new guidance requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The new guidance is effective for the first annual reporting period, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted because compliance with the amendments is already permitted. We do not expect the adoption of ASU 2011-05 will have a material impact on the consolidated financial statements.

Note 3 Acquisitions

In August 2011, ADESA entered into an Agreement and Plan of Merger (the Merger Agreement) with OPENLANE, Inc. (OPENLANE). In October 2011, we completed the acquisition of OPENLANE, which became a wholly owned subsidiary of ADESA. OPENLANE is a North American online automotive auction company that provides a market for online buyers and sellers of wholesale vehicles. OPENLANE offers its comprehensive remarketing solutions to auto manufacturers, captive finance companies, lease and daily rental companies, financial institutions and wholesale auto auctions throughout the United States and Canada.

As a result of the merger and pursuant to the terms of the Merger Agreement, each outstanding share of OPENLANE common stock and preferred stock (other than those shares of common stock or preferred stock held by OPENLANE) was converted into the right to receive an amount in cash as set forth in the Merger Agreement. In addition, each outstanding OPENLANE stock option and warrant was cancelled and converted into the right to receive an amount in cash based on the difference between the per share common stock consideration and the exercise price of the applicable stock option or warrant. The value of the cash consideration payable in the merger was $210 million plus approximately $35 million for excess cash on OPENLANE s balance sheet at the closing of the merger. We funded the cash consideration paid at closing with a combination of approximately $100 million of existing cash on-hand and borrowings of approximately $145 million from our revolving credit facility. We utilized approximately $35 million of acquired cash to immediately repay a portion of the borrowings on the revolving credit facility. Financial results for the acquisition will be included in our consolidated financial statements beginning in the fourth quarter of 2011.

Some of our acquisitions from prior years include contingent payments related to revenues or unit volumes of certain vehicles sold subsequent to the purchase dates. In the second and third quarters of 2011, we reversed contingent consideration of approximately $5.9 million and recorded contingent consideration of approximately $1.3 million, respectively, related to certain prior year acquisitions based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would or would not be met. The contingent consideration adjustments were recorded to Other (income) expense, net in the consolidated statement of income.

Note 4 Stock-Based Compensation Plans

We adopted the KAR Auction Services, Inc. 2009 Omnibus and Stock Incentive Plan (Omnibus Plan) in December 2009. The Omnibus Plan is intended to provide equity or cash based awards to our employees. On February 25, 2011, we granted approximately 0.2 million service options with an exercise price of $14.44 per share under the Omnibus Plan, on May 5, 2011, we granted approximately 0.4 million service options with an exercise price of $18.80 per share under the Omnibus Plan and on August 11, 2011, we granted less than 0.1 million service options with an exercise price of $13.58 per share under the Omnibus Plan. The service options have a ten year life and vest in four equal annual installments, commencing on the first anniversary of the grant date.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Our stock-based compensation expense includes expense associated with KAR Auction Services, Inc. service and exit option awards, KAR LLC operating unit awards and Axle LLC operating unit awards. We have classified the KAR LLC and Axle LLC operating units as liability awards. We have classified the KAR Auction Services, Inc. service and exit options as equity awards. The main difference between a liability-classified award and an equity-classified award is that liability-classified awards are remeasured each reporting period at fair value. We did not capitalize any stock-based compensation cost in the nine months ended September 30, 2011 or 2010.

The compensation cost that was charged against income for service and exit options was $4.4 million for the three months ended September 30, 2011, and the total income tax benefit recognized in the consolidated statement of income for options was approximately $1.6 million for the three months ended September 30, 2011. We recognized a reduction in compensation expense for the KAR LLC and Axle LLC operating units of approximately $12.9 million for the three months ended September 30, 2011 to reduce expense previously recorded. The reduction in KAR LLC and Axle LLC operating unit compensation expense for the three months ended September 30, 2011 resulted from marking the operating units to fair value. The compensation cost that was charged against income for all stock-based compensation plans was $10.7 million for the nine months ended September 30, 2011, and the total income tax benefit recognized in the consolidated statement of income for options was approximately $4.7 million for the nine months ended September 30, 2011.

The compensation cost that was charged against income for all stock-based compensation plans was $5.1 million and $12.4 million for the three and nine months ended September 30, 2010, respectively, and the total income tax benefit recognized in the consolidated statements of income for options was approximately $1.6 million and $4.8 million for the three and nine months ended September 30, 2010, respectively.

There is no income tax benefit associated with the KAR LLC and Axle LLC operating unit awards. We recognized compensation expense for the service and exit options of approximately $13.2 million and $13.4 million for the nine months ended September 30, 2011 and 2010, respectively. We recognized a reduction in compensation expense of $2.5 million and $1.0 million for the nine months ended September 30, 2011 and 2010, respectively. The reduction in KAR LLC and Axle LLC operating unit compensation expense for the nine months ended September 30, 2011 and 2010 resulted from marking the operating units to fair value.

Note 5 Net Income Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	**$ 32.2**	$ 25.6	**$ 57.7**	$ 62.3
Weighted average common shares outstanding	**136.3**	135.0	**135.9**	134.7
Effect of dilutive stock options	**1.8**	1.0	**1.8**	1.0
Weighted average common shares outstanding and potential common shares	**138.1**	136.0	**137.7**	135.7
Net income per share				
Basic	**$ 0.24**	$ 0.19	**$ 0.42**	$ 0.46
Diluted	**$ 0.23**	$ 0.19	**$ 0.42**	$ 0.46

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Basic net income per share was calculated by dividing net income by the weighted-average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options on net income per share-diluted is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per share are excluded from the calculations. Approximately 1.0 million and 1.6 million options were excluded from the calculation of diluted net income per share for the three months ended September 30, 2011 and 2010, respectively, and approximately 1.0 million and 0.6 million options were excluded from the calculation of diluted net income per share for the nine months ended September 30, 2011 and 2010, respectively. Total options outstanding at September 30, 2011 and 2010 were 9.0 million and 9.3 million, respectively.

Note 6 Finance Receivables and Obligations Collateralized by Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary (AFC Funding Corporation), established for the purpose of purchasing AFC s finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of undivided interests in certain eligible finance receivables subject to committed liquidity.

On April 26, 2011, AFC and AFC Funding Corporation entered into the Fourth Amended and Restated Receivables Purchase Agreement (the Receivables Purchase Agreement). The Receivables Purchase Agreement increased AFC Funding s U.S. committed liquidity from $450 million to $650 million and extended the facility s maturity date from April 20, 2012 to June 30, 2014. In addition, the interest costs for amounts borrowed increased approximately 0.5% and certain of the covenants and termination events in the Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were modified.

On May 24, 2011, Automotive Finance Canada, Inc. (AFCI) entered into an Amended and Restated Receivables Purchase Agreement (the Canadian Receivables Purchase Agreement). The Canadian Receivables Purchase Agreement increased AFCI s Canadian committed liquidity from C$75 million to C$100 million and extended the facility s maturity date from April 20, 2012 to June 30, 2014. AFCI s committed liquidity is provided through a third party conduit (separate from the U.S. conduit).

The following table 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, 2011 Principal Amount of:		**Net Credit Losses Three Months Ended September 30, 2011**	**Net Credit Losses Nine Months Ended September 30, 2011**
(in millions)	**Receivables**	**Receivables Delinquent**		
Floorplan receivables	**$ 797.3**	**$ 2.3**	**$ 1.0**	**$ 4.5**
Special purpose loans	**5.6**	**0.3**		
Total receivables managed	**$ 802.9**	**$ 2.6**	**$ 1.0**	**$ 4.5**

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

(in millions)	December 31, 2010 Principal Amount of: Receivables	Receivables Delinquent	Net Credit Losses Three Months Ended September 30, 2010	Net Credit Losses Nine Months Ended September 30, 2010
Floorplan receivables	$ 765.0	$ 4.8	$ 1.5	$ 6.0
Special purpose loans	6.6	0.8		
Total receivables managed	$ 771.6	$ 5.6	$ 1.5	$ 6.0

AFC s allowance for losses was $8.8 million and $9.7 million at September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011 and December 31, 2010, $799.0 million and $763.9 million, respectively, of finance receivables and a cash reserve of 1 percent of finance receivables securitized served as security for the $542.7 million and $520.1 million of obligations collateralized by finance receivables at September 30, 2011 and December 31, 2010, respectively. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our credit facility. At September 30, 2011, we were in compliance with the covenants in the securitization agreements.

Note 7 Long-Term Debt

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

	Interest Rate	Maturity	September 30, 2011	December 31, 2010
Old Term Loan B	LIBOR + 2.75%	October 19, 2013	**$**	$ 1,144.6
New Term Loan B	Adjusted LIBOR + 3.75%	May 18, 2017	**1,695.8**	
Old $250 million revolving credit facility	LIBOR + 2.75%	April 19, 2013		
New $250 million revolving credit facility	Adjusted LIBOR + 3.50%	May 18, 2016		
Floating rate senior notes	LIBOR + 4.00%	May 01, 2014	**150.0**	150.0
Senior notes	8.75%	May 01, 2014		450.0
Senior subordinated notes	10%	May 01, 2015		131.1
Canadian line of credit	CAD Prime + 1.5%			
Total debt			**1,845.8**	1,875.7
Unamortized debt discount			**(8.0)**	
Current portion of long-term debt			**(17.0)**	
Long-term debt			**$ 1,820.8**	$ 1,875.7

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Credit Facilities

On May 19, 2011, we established a new $1.7 billion, six-year senior secured term loan facility (New Term Loan B in the table above) and a new $250 million, five-year senior secured revolving credit facility (New $250 million revolving credit facility in the table above), the terms of which are set forth in the Credit Agreement, dated as of May 19, 2011. Concurrently with our entry into the Credit Agreement, we terminated our previous credit facility, dated as of April 20, 2007 (as amended, the 2007 Credit Agreement). On May 19, 2011, we paid all principal outstanding and interest due under the 2007 Credit Agreement. No early termination penalties were incurred by the Company in connection with the termination of the 2007 Credit Agreement; however, we incurred a non-cash loss on the extinguishment of the term loan under the 2007 Credit Agreement (Old Term Loan B in the table above) of $24.5 million representative of the write-off of certain unamortized debt issuance costs.

The new Credit Facility is available for letters of credit, working capital and general corporate purposes (including refinancing certain Existing Indebtedness (as defined in the Credit Agreement)). The Credit Agreement provides that with respect to the new revolving Credit Facility, up to $75 million is available for letters of credit and up to $75 million is available for swing line loans. The Credit Agreement also permits up to $300 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders (with the consent of the administrative agent).

New Term Loan B was issued at a discount of $8.5 million. The discount is being amortized to interest expense over the six-year term of the loan. New Term Loan B is payable in quarterly installments equal to 0.25% of the original aggregate principal amount, with such payments commencing on September 30, 2011 and the balance payable at maturity. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to (i) the net proceeds of certain debt offerings, asset sales and certain insurance recovery events; and (ii) for any fiscal year ending on or after December 31, 2011, any excess cash flow, as defined in the Credit Agreement.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the Subsidiary Guarantors) and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and perfected first-priority security interests in 100% of the equity interests of certain of the Company s and the Subsidiary Guarantors domestic subsidiaries and 65% of the equity interests of certain of the Company s and the Subsidiary Guarantors first-tier foreign subsidiaries and (b) perfected first-priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions. The Credit Agreement contains affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with our affiliates. The Credit Agreement also requires us to maintain a maximum leverage ratio, provided there are revolving loans outstanding. There were no revolving loans outstanding at September 30, 2011. We were in compliance with the covenants in the Credit Agreement at September 30, 2011.

New Term Loan B will bear interest at an adjusted LIBOR rate plus 3.75% (with an adjusted LIBOR rate floor of 1.25% per annum) and revolving loan borrowings at an adjusted LIBOR rate plus 3.50%; however, for specified types of borrowings, the Company may elect to make term loan borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.75% and revolving loan borrowings at a Base Rate plus 2.50%. The rate on New Term Loan B was 5.0% at September 30, 2011. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate will step down by 25 basis points. The Company

KAR Auction Services, Inc.

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September 30, 2011 (Unaudited)

will also pay a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of the Credit Facility. The fee may step down to 37.5 basis points based on the Company s Consolidated Senior Secured Leverage Ratio as described above.

There were no borrowings under the new revolving credit facility at September 30, 2011 or the old revolving credit facility at December 31, 2010, although we did have related outstanding letters of credit in the aggregate amount of $28.8 million and $29.4 million at September 30, 2011 and December 31, 2010, respectively, which reduced the amount available for borrowings under the respective credit facilities.

Senior Notes

In 2007, we issued $450.0 million of 8 $^{3}/4$% senior notes and $150.0 million of floating rate senior notes, both of which were due May 1, 2014. In addition, we issued $425.0 million of 10% senior subordinated notes due May 1, 2015. In January 2010, we prepaid $225.6 million principal amount of the 10% senior subordinated notes with proceeds received from our initial public offering and the underwriters option to purchase additional shares. We incurred a loss on the extinguishment of the notes of $25.3 million in the first quarter of 2010.

In June 2011, we prepaid $450.0 million principal amount of the 8 $^{3}/4$% senior notes and the remaining $131.1 million principal balance of the 10% senior subordinated notes with proceeds received from New Term Loan B and cash on hand. We incurred a loss on the extinguishment of the notes of $29.0 million in the second quarter of 2011 representative of the net premiums payable related to the repurchase of the notes and the write-off of certain unamortized debt issuance costs.

Fair Value of Debt

As of September 30, 2011, the estimated fair value of our long-term debt amounted to $1,781.6 million. The estimates of fair value are based on the market prices for our publicly-traded debt as of September 30, 2011. The estimates presented on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

Note 8 Derivatives

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

In May 2009, we entered into an interest rate swap agreement with a notional amount of $650 million to manage our exposure to interest rate movements on our variable rate Old Term Loan B credit facility. The interest rate swap agreement had an effective date of June 30, 2009, was scheduled to mature on June 30, 2012 and effectively resulted in a fixed LIBOR interest rate of 2.19% on $650 million of the Old Term Loan B credit facility. In connection with the extinguishment of Old Term Loan B in May 2011, we de-designated our interest rate swap and entered into a swap termination agreement. We paid $14.5 million to settle and terminate the swap. As a result, the $14.5 million was reclassified from other comprehensive income to interest expense.

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

Derivatives Designated as Hedging Instruments Under ASC 815	Asset Derivatives September 30, 2011 Balance Sheet Location	Fair Value	Asset Derivatives December 31, 2010 Balance Sheet Location	Fair Value	Liability Derivatives September 30, 2011 Balance Sheet Location	Fair Value	Liability Derivatives December 31, 2010 Balance Sheet Location	Fair Value
Aggregate $925 million notional interest rate caps (new)	Other assets	**$1.2**	Other assets	N/A	Other accrued expenses	**$**	Other accrued expenses	N/A
$650 million notional interest rate swap	Other assets	**N/A**	Other assets	$	Other accrued expenses	**N/A**	Other accrued expenses	$ 16.6
$250 million notional interest rate cap (old)	Other current assets	**N/A**	Other current assets	$	Other accrued expenses	**N/A**	Other accrued expenses	$

The earnings impact of the interest rate derivatives designated as cash flow hedges is recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in current earnings. There was no significant ineffectiveness in the first nine months of 2011 or 2010. Unrealized gains or losses on the interest rate derivatives are included as a component of Accumulated other comprehensive income. At September 30, 2011, there was a net unrealized gain totaling $0.2 million, net of tax benefits of $0.1 million. At December 31, 2010, there was a net unrealized loss totaling $10.5 million, net of tax benefits of $6.4 million. The following table presents the effect of the interest rate derivatives on our statement of equity and consolidated statements of income for the periods presented (*in millions*):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended September 30, 2011	2010	Location of Gain /(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, 2011	2010
Aggregate $925 million notional interest rate caps (new)	**$ 0.2**	N/A		**$**	N/A
$650 million notional interest rate swap	**N/A**	($ 2.1)	Interest expense	**N/A**	($ 3.1)
$250 million notional interest rate cap (old)	**N/A**	$ 0.1	N/A	**N/A**	$

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Derivatives in ASC 815	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Nine Months Ended September 30,		Location of Gain /(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30,	
Cash Flow Hedging Relationships	**2011**	**2010**		**2011**	**2010**
Aggregate $925 million notional interest rate caps (new)	**$ 0.2**	N/A		**$**	N/A
$650 million notional interest rate swap	**$ 2.1**	($ 11.2)	Interest expense	**($ 18.6)**	($ 9.4)
$250 million notional interest rate cap (old)	**$ 0.3**	($ 0.1)	N/A	**$**	$

Note 9 Income Taxes

During the first nine months of 2011, we had an effective tax rate of 13.2% resulting in large part from the reversal of $17.9 million in tax reserves for uncertain tax positions due to the expiration of certain statute of limitations. Excluding the effect of the release of the tax reserves, our effective tax rate for the nine months ended September 30, 2011 would have been 40.2%.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (*in millions*):

	September 30, 2011	**December 31, 2010**
Balance at beginning of period	**$ 25.9**	$ 26.4
Increase in tax positions related to acquisitions		
Increase in prior year tax positions	**0.7**	1.4
Decrease in prior year tax positions	**(0.3)**	(0.7)
Increase in current year tax positions	**0.6**	1.3
Settlements	**(0.7)**	(0.2)
Lapse in statute of limitations	**(17.9)**	(2.3)
Balance at end of period	**$ 8.3**	$ 25.9

Note 10 Commitments and Contingencies

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in Other accrued expenses at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred. There has been no significant change in the legal and regulatory proceedings which were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Note 11 Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	**$ 32.2**	$ 25.6	**$ 57.7**	$ 62.3
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss)	**(26.8)**	8.6	**(16.7)**	3.7
Unrealized gain (loss) on interest rate deriviatives	**0.1**	(1.2)	**1.6**	(7.0)
Early termination of swap agreement			**9.0**	
Comprehensive income	**$ 5.5**	$ 33.0	**$ 51.6**	$ 59.0

The composition of Accumulated other comprehensive income at September 30, 2011, net of related tax effects, consisted of the net unrealized gain on the interest rate derivatives of $0.1 million, a $0.2 million unrealized gain on post-retirement benefit obligation and a foreign currency translation gain of $20.1 million. The composition of Accumulated other comprehensive income at December 31, 2010, net of related tax effects, consisted of the net unrealized loss on the interest rate derivatives of $10.5 million, a $0.2 million unrealized gain on post-retirement benefit obligation and a foreign currency translation gain of $36.8 million.

Note 12 Fair Value Measurements

We apply ASC 820, *Fair Value Measurements and Disclosures*, to our financial assets and liabilities. ASC 820 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.

Level 3 Unobservable inputs that are based on our assumptions are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect our 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.

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis in accordance with ASC 820 (*in millions*):

Description	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate caps (new)	**$ 1.2**	**$**	**$ 1.2**	**$**
Interest rate cap (old)	**N/A**	**N/A**	**N/A**	**N/A**
Liabilities:				
Interest rate swap	**N/A**	**N/A**	**N/A**	**N/A**

Description	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate cap (old)	$	$	$	$
Liabilities:				
Interest rate swap	$ 16.6	$	$ 16.6	$

Interest Rate Caps (new) Under the three interest rate cap agreements purchased in August 2011, we receive interest on a notional amount when one-month LIBOR exceeds 1.25%. These agreements effectively hedge a portion of the New Term Loan B credit facility. The fair value of the interest rate caps is based on quoted market prices for similar instruments from commercial banks.

Interest Rate Cap (old) Under the interest rate cap agreement, we received interest on a notional amount when one-month LIBOR exceeded 2.5%. This agreement effectively hedged a portion of the Old Term Loan B credit facility. The fair value of the interest rate cap was based on quoted market prices for similar instruments from a commercial bank.

Interest Rate Swap Under the interest rate swap agreement, we paid a fixed LIBOR rate on a notional amount and received a variable LIBOR rate which effectively hedged a portion of the Old Term Loan B credit facility. The fair value of the interest rate swap was based on quoted market prices for similar instruments from a commercial bank.

Note 13 Segment Information

ASC 280, *Segment Reporting,* requires reporting of segment information that is consistent with the manner in which the chief operating decision maker operates and views the Company. We have 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 expense includes the interest expense

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

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.

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

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 241.3	$ 164.7	$ 41.0	$	$ 447.0
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	137.7	100.0	8.0		245.7
Selling, general and administrative	50.1	20.3	5.1	4.4	79.9
Depreciation and amortization	20.8	16.4	6.2	0.4	43.8
Total operating expenses	208.6	136.7	19.3	4.8	369.4
Operating profit (loss)	32.7	28.0	21.7	(4.8)	77.6
Interest expense	0.2	0.5	3.4	25.3	29.4
Other (income) expense, net	(0.3)	1.3		0.3	1.3
Intercompany expense (income)	14.8	9.6	(3.8)	(20.6)	
Income (loss) before income taxes	18.0	16.6	22.1	(9.8)	46.9
Income taxes	3.9	6.9	8.0	(4.1)	14.7
Net income (loss)	$ 14.1	9.7	$ 14.1	($ 5.7)	$ 32.2
Assets	$ 2,194.6	$ 1,172.0	$ 1,204.7	$ 40.3	$ 4,611.6

Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2010 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 267.4	$ 142.3	$ 35.6	$	$ 445.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	147.7	86.6	7.3		241.6
Selling, general and administrative	52.2	17.9	5.0	15.3	90.4
Depreciation and amortization	21.6	14.3	6.2	0.1	42.2
Total operating expenses	221.5	118.8	18.5	15.4	374.2
Operating profit (loss)	45.9	23.5	17.1	(15.4)	71.1

Interest expense	0.3	0.6	1.9	32.7	35.5
Other (income) expense, net	(0.3)	(0.2)		(0.6)	(1.1)
Intercompany expense (income)	9.6	9.5	(3.0)	(16.1)	
Income (loss) before income taxes	36.3	13.6	18.2	(31.4)	36.7
Income taxes	13.7	5.1	6.7	(14.4)	11.1
Net income (loss)	$ 22.6	$ 8.5	$ 11.5	($ 17.0)	$ 25.6
Assets	$ 2,233.9	$ 1,199.1	$ 1,168.7	$ 147.4	$ 4,749.1

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

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

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 767.1	$ 513.8	$ 119.4	$	$ 1,400.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	436.4	301.4	23.8		761.6
Selling, general and administrative	157.6	59.9	14.6	48.8	280.9
Depreciation and amortization	63.2	48.9	18.6	0.8	131.5
Total operating expenses	657.2	410.2	57.0	49.6	1,174.0
Operating profit (loss)	109.9	103.6	62.4	(49.6)	226.3
Interest expense	0.7	1.6	8.5	101.5	112.3
Other (income) expense, net	(1.0)	(5.3)		0.3	(6.0)
Loss on extinguishment of debt				53.5	53.5
Intercompany expense (income)	37.5	28.8	(10.6)	(55.7)	
Income (loss) before income taxes	72.7	78.5	64.5	(149.2)	66.5
Income taxes	14.9	28.9	22.3	(57.3)	8.8
Net income (loss)	$ 57.8	$ 49.6	$ 42.2	($ 91.9)	$ 57.7

Financial information regarding our reportable segments is set forth below for the nine months ended September 30, 2010 *(in millions)*:

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidated
Operating revenues	$ 821.1	$ 458.4	$ 94.2	$	$ 1,373.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	456.5	271.9	20.9		749.3
Selling, general and administrative	158.0	58.5	13.5	46.2	276.2
Depreciation and amortization	64.6	43.7	18.6	0.4	127.3
Total operating expenses	679.1	374.1	53.0	46.6	1,152.8
Operating profit (loss)	142.0	84.3	41.2	(46.6)	220.9
Interest expense	0.8	1.7	5.1	98.7	106.3
Other income, net	(0.5)	(0.8)		(1.4)	(2.7)
Loss on extinguishment of debt				25.3	25.3
Intercompany expense (income)	31.0	28.6	(8.5)	(51.1)	

Income (loss) before income taxes	110.7	54.8	44.6	(118.1)	92.0
Income taxes	38.7	21.5	17.4	(47.9)	29.7
Net income (loss)	$ 72.0	$ 33.3	$ 27.2	($ 70.2)	$ 62.3

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September 30, 2011 (Unaudited)

Note 14 Supplemental Guarantor Information

Our obligations related to the floating rate senior notes, as well as the 10% senior subordinated notes and the 8 3/4% senior notes are or were guaranteed on a full, unconditional, joint and several basis by certain direct and indirect present and future domestic subsidiaries (the Guarantor Subsidiaries). AFC Funding Corporation and all of our foreign subsidiaries are not guarantors (the Non-Guarantor Subsidiaries). The following financial information sets forth, on a condensed consolidating basis, the balance sheets, statements of income and statements of cash flows for the periods indicated for KAR Auction Services, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at KAR Auction Services on a consolidated basis.

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

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September 30, 2011 (Unaudited)

Condensed Consolidating Statement of Income

For the Three Months Ended September 30, 2011

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 332.8	$ 114.2	$	$ 447.0
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		207.9	37.8		245.7
Selling, general and administrative	(11.8)	79.1	12.6		79.9
Depreciation and amortization		37.9	5.9		43.8
Total operating expenses	(11.8)	324.9	56.3		369.4
Operating profit (loss)	11.8	7.9	57.9		77.6
Interest expense	10.9	14.6	3.9		29.4
Other income, net		1.8	(0.5)		1.3
Intercompany expense (income)		(4.4)	4.4		
Income (loss) before income taxes	0.9	(4.1)	50.1		46.9
Income taxes	(1.6)	(1.7)	18.0		14.7
Net income (loss)	$ 2.5	($ 2.4)	$ 32.1	$	$ 32.2

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Statement of Income

For the Three Months Ended September 30, 2010

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 338.3	$ 107.0	$	$ 445.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		205.2	36.4		241.6
Selling, general and administrative	1.5	77.0	11.9		90.4
Depreciation and amortization		36.4	5.8		42.2
Total operating expenses	1.5	318.6	54.1		374.2
Operating profit (loss)	(1.5)	19.7	52.9		71.1
Interest expense	17.6	15.0	2.9		35.5
Other (income) expense, net		(1.0)	(0.1)		(1.1)
Intercompany expense (income)		(4.5)	4.5		
Income (loss) before income taxes	(19.1)	10.2	45.6		36.7
Income taxes	(8.8)	3.9	16.0		11.1
Net income (loss)	($ 10.3)	$ 6.3	$ 29.6	$	$ 25.6

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Statement of Income

For the Nine Months Ended September 30, 2011

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 1,052.3	$ 348.0	$	$ 1,400.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		642.5	119.1		761.6
Selling, general and administrative	0.8	240.4	39.7		280.9
Depreciation and amortization		113.2	18.3		131.5
Total operating expenses	0.8	996.1	177.1		1,174.0
Operating profit (loss)	(0.8)	56.2	170.9		226.3
Interest expense	57.5	44.9	9.9		112.3
Other income, net		(4.7)	(1.3)		(6.0)
Loss on extinguishment of debt	53.5				53.5
Intercompany expense (income)		(13.1)	13.1		
Income (loss) before income taxes	(111.8)	29.1	149.2		66.5
Income taxes	(42.7)	(0.7)	52.2		8.8
Net income (loss)	($ 69.1)	$ 29.8	$ 97.0	$	$ 57.7

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Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Statement of Income

For the Nine Months Ended September 30, 2010

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$	$ 1,047.8	$ 325.9	$	$ 1,373.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)		630.1	119.2		749.3
Selling, general and administrative	1.9	237.9	36.4		276.2
Depreciation and amortization		109.8	17.5		127.3
Total operating expenses	1.9	977.8	173.1		1,152.8
Operating profit (loss)	(1.9)	70.0	152.8		220.9
Interest expense	53.5	43.2	9.6		106.3
Other income, net		(2.1)	(0.6)		(2.7)
Loss on extinguishment of debt	25.3				25.3
Intercompany expense (income)		(13.6)	13.6		
Income (loss) before income taxes	(80.7)	42.5	130.2		92.0
Income taxes	(31.1)	14.6	46.2		29.7
Net income (loss)	($ 49.6)	$ 27.9	$ 84.0	$	$ 62.3

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Balance Sheet

As of September 30, 2011

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$	$ 143.5	$ 60.1	$	$ 203.6
Restricted cash			6.7		6.7
Trade receivables, net of allowances		273.1	64.1	(19.2)	318.0
Finance receivables, net of allowances		3.8	120.8		124.6
Finance receivables securitized, net of allowances			669.5		669.5
Deferred income tax assets		39.3			39.3
Other current assets	0.7	42.8	4.9		48.4
Total current assets	0.7	502.5	926.1	(19.2)	1,410.1
Other assets					
Investments in and advances to affiliates, net	2,425.8	358.0	110.4	(2,894.2)	
Goodwill		1,551.9	3.9		1,555.8
Customer relationships, net of accumulated amortization		558.1	95.0		653.1
Other intangible assets, net of accumulated amortization		269.0	5.2		274.2
Unamortized debt issuance costs	24.7		5.8		30.5
Other assets	1.2	9.9	0.5		11.6
Total other assets	2,451.7	2,746.9	220.8	(2,894.2)	2,525.2
Property and equipment, net of accumulated depreciation		548.0	128.3		676.3
Total assets	$ 2,452.4	$ 3,797.4	$ 1,275.2	($ 2,913.4)	$ 4,611.6

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Balance Sheet

As of September 30, 2011

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$	$ 382.7	$ 21.2	($ 19.2)	$ 384.7
Accrued employee benefits and compensation expenses		46.3	3.8		50.1
Accrued interest	1.3		0.2		1.5
Other accrued expenses	2.3	64.3	8.5		75.1
Income taxes payable		3.4	5.0		8.4
Obligations collateralized by finance receivables			542.7		542.7
Current maturities of long-term debt	17.0				17.0
Total current liabilities	20.6	496.7	581.4	(19.2)	1,079.5
Non-current liabilities					
Investments by and advances from affiliates, net	122.3			(122.3)	
Long-term debt	999.3	821.5			1,820.8
Deferred income tax liabilities		299.0	19.3		318.3
Other liabilities		75.4	4.7		80.1
Total non-current liabilities	1,121.6	1,195.9	24.0	(122.3)	2,219.2
Commitments and contingencies					
Stockholders equity					
Total stockholders equity	1,310.2	2,104.8	669.8	(2,771.9)	1,312.9
Total liabilities and stockholders equity	$ 2,452.4	$ 3,797.4	$ 1,275.2	($ 2,913.4)	$ 4,611.6

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011 (Unaudited)

Condensed Consolidating Balance Sheet

As of December 31, 2010

(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$	$ 99.3	$ 19.8	$	$ 119.1
Restricted cash			8.6		8.6
Trade receivables, net of allowances		233.6	51.6	(13.3)	271.9
Finance receivables, net of allowances		7.6	118.6		126.2
Finance receivables securitized, net of allowances			635.7		635.7
Deferred income tax assets	1.5	39.3			40.8
Other current assets	1.2	47.5	3.7		52.4
Total current assets	2.7	427.3	838.0	(13.3)	1,254.7
Other assets					
Investments in and advances to affiliates, net	2,472.6	292.2	82.3	(2,847.1)	
Goodwill		1,550.1	4.0		1,554.1
Customer relationships, net of accumulated amortization		605.2	107.4		712.6
Other intangible assets, net of accumulated amortization		261.6	8.2		269.8
Unamortized debt issuance costs	41.4				41.4
Other assets		10.9	1.0		11.9
Total other assets	2,514.0	2,720.0	202.9	(2,847.1)	2,589.8
Property and equipment, net of accumulated depreciation		539.1	141.4		680.5
Total assets	$ 2,516.7	$ 3,686.4	$ 1,182.3	($ 2,860.4)	$ 4,525.0