

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

Use these links to rapidly review the document

[Table of Contents](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

**OR**

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

**Commission File Number: 001-34568**

**KAR Auction Services, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-8744739**

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

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

(Address of principal executive offices, including zip code)

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

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

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

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

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

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

(Do not check if a  
smaller reporting company)

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

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

---

Table of Contents

**KAR Auction Services, Inc.**  
**Table of Contents**

	<b>Page</b>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Balance Sheets</u>	<u>5</u>
<u>Consolidated Statement of Stockholders' Equity</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>59</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>60</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>61</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>61</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>62</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>62</u>
<u>Signatures</u>	<u>63</u>

Exhibit Index

2

64

---

Table of Contents

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

**Item 1. Financial Statements**

**KAR Auction Services, Inc.**

**Consolidated Statements of Income**

(In millions, except per share data)

(Unaudited)

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

See accompanying notes to consolidated financial statements



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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements



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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

Table of Contents

## KAR Auction Services, Inc.

## Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

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

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

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

See accompanying notes to consolidated financial statements

Table of Contents

**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements**

**September 30, 2012 (Unaudited)**

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

***Defined Terms***

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

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

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

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

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

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

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

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

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

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

***Basis of Presentation***

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

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

Table of Contents

**KAR Auction Services, Inc.**

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

**September 30, 2012 (Unaudited)**

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

presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates.

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

***Reclassifications and Revisions***

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

***Business and Nature of Operations***

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

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

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

Table of Contents

**KAR Auction Services, Inc.**

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

**September 30, 2012 (Unaudited)**

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

total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound transportation logistics, inspections, evaluations, salvage recovery services, titling and settlement administrative services.

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

**Note 2 Acquisitions**

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

**Note 3 Stock-Based Compensation Plans**

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

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



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

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

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

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

**Note 4 Net Income Per Share**

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

**Note 6 Long-Term Debt**

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

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

**Credit Facilities**

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

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

Table of Contents

**KAR Auction Services, Inc.**

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

**September 30, 2012 (Unaudited)**

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

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

***Fair Value of Debt***

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

**Note 7 Derivatives**

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

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

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

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

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

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

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

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

\*

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

**Note 8 Commitments and Contingencies**

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

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

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

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

**Note 10 Segment Information**

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

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits, and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on the corporate debt structure. Intercompany charges relate primarily to interest on intercompany debt or receivables and certain administrative costs allocated by



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

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

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

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 10 Segment Information (Continued)**Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2011 (*in millions*):

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

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

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

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

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



Table of Contents

**KAR Auction Services, Inc.**

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

**September 30, 2012 (Unaudited)**

**Note 11 Supplemental Guarantor Information**

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

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

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

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

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

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

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

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

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

September 30, 2012 (Unaudited)

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

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

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



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

September 30, 2012 (Unaudited)

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

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

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

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

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

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

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

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

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

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

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

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

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

September 30, 2012 (Unaudited)

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

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

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

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

September 30, 2012 (Unaudited)

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

As of September 30, 2012

(In millions)

(Unaudited)

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

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

September 30, 2012 (Unaudited)

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

As of September 30, 2012

(In millions)

(Unaudited)

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

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

September 30, 2012 (Unaudited)

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

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

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



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

September 30, 2012 (Unaudited)

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

As of December 31, 2011

(In millions)

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

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

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

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

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

September 30, 2012 (Unaudited)

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

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Net cash (used by) provided by operating activities</b>	\$ 77.4	\$ 62.1	\$ 66.0	\$ 0	\$ 205.5
<b>Investing activities</b>					
Net decrease (increase) in finance receivables held for investment	0	3.9	(44.0)	0	(40.1)
Acquisition of businesses, net of cash acquired	0	(4.5)	0	0	(4.5)
Purchases of property, equipment and computer software	0	(63.0)	(1.2)	0	(64.2)
Proceeds from sale of property, equipment and computer software	0	0.2	0	0	0.2
(Increase) decrease in restricted cash	0	0	1.9	0	1.9
<b>Net cash (used by) provided by investing activities</b>	0	(63.4)	(43.3)	0	(106.7)
<b>Financing activities</b>					
Net increase (decrease) in book overdrafts	0	58.8	(0.4)	0	58.4
Net increase in obligations collateralized by finance receivables	0	0	22.6	0	22.6
Proceeds from long-term debt	1,691.5	0	0	0	1,691.5
Payments for debt issuance costs	(24.3)	(5.2)	(1.1)	0	(30.6)
Payments on long-term debt	(1,148.8)	0	0	0	(1,148.8)
Payments for early extinguishment of debt	(600.7)	0	0	0	(600.7)
Payments on capital leases	0	(5.7)	(0.4)	0	(6.1)
Payment of contingent consideration and deferred acquisition costs	0	(2.4)	0	0	(2.4)
Initial net investment for interest rate caps	(1.1)	0	0	0	(1.1)
Issuance of common stock under stock plans	6.0	0	0	0	6.0
<b>Net cash provided by (used by) financing activities</b>	(77.4)	45.5	20.7	0	(11.2)
Effect of exchange rate changes on cash	0	0	(3.1)	0	(3.1)
<b>Net increase (decrease) in cash and cash equivalents</b>	0	44.2	40.3	0	84.5
Cash and cash equivalents at beginning of period	0	99.3	19.8	0	119.1
Cash and cash equivalents at end of period	\$ 0	\$ 143.5	\$ 60.1	\$ 0	\$ 203.6

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this report on Form 10-Q that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives, greenfields and acquisitions; our competitive position; and our continued investment in information technology are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed on February 28, 2012. Some of these factors include:

fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;

trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;

the ability of consumers to lease or finance the purchase of new and/or used vehicles;

the ability to recover or collect from delinquent or bankrupt customers;

economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;

trends in the vehicle remarketing industry;

changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;

increases in the number of used and salvage vehicles purchased on virtual auction platforms;

the introduction of new competitors;

laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;

changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;

competitive pricing pressures;

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

costs associated with the acquisition of businesses or technologies;

litigation developments;

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

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

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

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

Table of Contents

weather;

general business conditions;

our substantial amount of debt;

restrictive covenants in our debt agreements;

our assumption of the settlement risk for vehicles sold;

any impairment to our goodwill or other intangible assets;

our self-insurance for certain risks;

any losses of key personnel;

interruptions to service from our workforce;

changes in effective tax rates;

changes to accounting standards; and

other risks described from time to time in our filings with the SEC.

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

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

**Overview**

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

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

The ADESA Auctions segment serves an international customer base through online auctions and through 68 whole car auction facilities in North America, that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. OPENLANE, a leader in internet-based remarketing solutions, offers vehicles for sale from any location. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inspections, storage, transportation, reconditioning, titling and other administrative services.

Table of Contents

The IAA segment serves a domestic and international customer base through live and online auctions and through 161 salvage vehicle auction sites in the United States and Canada at September 30, 2012. The salvage auctions facilitate the remarketing of damaged or low value vehicles designated as total losses by insurance companies and charity donation vehicles, as well as recovered stolen (or theft) vehicles. The salvage auction business specializes in providing services such as inbound transportation, titling, salvage recovery and claims settlement administrative services.

The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At September 30, 2012, AFC conducted business at 104 locations in the United States and Canada.

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits, and travel costs for our management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on the corporate debt structure. Intercompany charges relate primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company.

***Industry Trends***

**Whole Car**

In 2010 and 2011, the North American whole car auction industry experienced supply shortages as a result of the impacts felt by the automotive industry over the last three years, including volatility in new vehicle sales, lease originations and repossessions. The supply shortages resulted in a decline in whole car auction volume compared to prior years. Used vehicles sold in North America through whole car auctions were 9.1 million, 8.4 million and 7.7 million in 2009, 2010, and 2011, respectively (excluding approximately 0.3 million used vehicles sold by OPENLANE in 2011). The supply shortages and resulting decline in industry auction volumes reflect a reduction in units sold by institutional consignors. This reduction has been partially offset by an increase in dealer consignment units sold in 2010 and 2011.

Other reasons for the fluctuations in industry volumes, which may also impact future volumes include:

New car sales in the U.S. declined from 17.0 million in 2005 to 10.4 million in 2009. Although new vehicle sales have climbed over the last two years to approximately 12.8 million units in 2011, they are not anticipated to return to 2005 levels for the foreseeable future.

The decline in total new vehicle sales, coupled with a tightening of consumer credit and changing policies regarding delinquent loans by the major lenders, resulted in a decline in repossessed vehicles coming to auction.

When lease residuals are below wholesale vehicle values, more vehicles are purchased by either the consumer or the grounding dealer or by dealers in online auctions, prior to the vehicles being transported to a physical auction.

As used vehicle prices have increased over the last few years, new vehicle dealers have shifted to selling more used vehicles, which can offset lower new vehicle sales. Dealers can also offer financing, warranties and insurance services on their used vehicle sales. Despite an increase in the number of trade-ins dealers keep for retail sale, the number of trade-ins remarketed through whole car auctions has increased.



Table of Contents

There was a reduction in the number of lease originations in 2008 and 2009, as new vehicle sales fell and lease financing was scaled back. We believe this decline will continue to negatively impact the supply of off-lease vehicles available at auction in 2012 and this trend could continue into 2013.

Based on the factors discussed above, we estimate that used vehicle auction volumes in North America, including units sold by OPENLANE, will be approximately 8 million units in 2012, approach 8.4 million units in 2013 and are expected to reach nearly 9 million units by 2015.

**Salvage**

Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. The percentage of claims resulting in total losses is estimated at 13.9% for 2011, down slightly from 2010. There is no central reporting system that tracks the number of total loss vehicles in any given year which makes estimating industry volumes very difficult.

Fluctuations in used vehicle and commodity pricing have an impact on proceeds received in the salvage vehicle auction industry. In times of rising prices, as the industry has experienced over the last few years, revenue and gross profit are positively impacted. If used vehicle and commodity prices moderate in 2013, proceeds, revenue and gross profit at salvage auctions may be impacted, which could also affect the level of profitability.

**Automotive Finance**

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

Despite the negative factors and trends that impacted the automotive finance industry in 2008 and 2009, AFC's financial results have steadily improved since that time. AFC implemented a number of strategic initiatives in 2008 and early 2009 designed to tighten credit standards and reduce risk and exposure in its portfolio of finance receivables. These initiatives have resulted in a substantial improvement in the aging of the managed portfolio, which was over 99 percent current at September 30, 2012. In addition, AFC's managed portfolio of finance receivables grew approximately 17 percent from \$802.9 million at September 30, 2011 to \$938.5 million at September 30, 2012.

**Seasonality**

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

Table of Contents**Sources of Revenues and Expenses**

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

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

**Results of Operations****Overview of Results of KAR Auction Services for the Three Months Ended September 30, 2012 and 2011:**

(Dollars in millions except per share amounts)	Three Months Ended September 30,	
	2012	2011
Revenues		
ADESA	\$ 257.0	\$ 241.3
IAA	167.4	164.7
AFC	50.5	43.1
Total revenues	474.9	449.1
Cost of services*	264.1	247.3
Gross profit*	210.8	201.8
Selling, general and administrative	102.3	80.4
Depreciation and amortization	46.8	43.8
Operating profit	61.7	77.6
Interest expense	29.9	29.4
Other (income) expense, net	(1.2)	1.3
Income before income taxes	33.0	46.9
Income taxes	13.8	14.7
Net income	\$ 19.2	\$ 32.2
Net income per share		
Basic	\$ 0.14	\$ 0.24
Diluted	\$ 0.14	\$ 0.23

\*

Exclusive of depreciation and amortization

For the three months ended September 30, 2012, we had revenue of \$474.9 million, compared with revenue of \$449.1 million for the three months ended September 30, 2011, an increase of 6%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Table of Contents

*Depreciation and Amortization*

Depreciation and amortization increased \$3.0 million, or 7%, to \$46.8 million for the three months ended September 30, 2012, compared with \$43.8 million for the three months ended September 30, 2011. The increase in depreciation and amortization was primarily representative of \$4.2 million for OPENLANE in the third quarter of 2012, partially offset by a net decrease in depreciation and amortization as five year life computer software and technology assets, revalued as part of the April 20, 2007 merger between ADESA and IAA, became fully amortized.

*Interest Expense*

Interest expense increased \$0.5 million, or 2%, to \$29.9 million for the three months ended September 30, 2012, compared with interest expense of \$29.4 million for the three months ended September 30, 2011. The increase in interest expense was primarily representative of an increase in interest expense at AFC, which resulted from an increase in the average U.S. portfolio sold in 2012 as compared with 2011.

*Other (Income) Expense, Net*

We had other income of \$1.2 million for the three months ended September 30, 2012, compared with other expense of \$1.3 million for the three months ended September 30, 2011. The change in other income was primarily representative of \$1.3 million of contingent consideration expense that was recorded in the third quarter of 2011. The contingent consideration related to certain prior year acquisitions and the adjustments were based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would be met. In addition, we had foreign currency transaction gains for the three months ended September 30, 2012, compared with foreign currency transaction losses for the three months ended September 30, 2011.

*Income Taxes*

We had an effective tax rate of 41.8% for the three months ended September 30, 2012, compared with an effective rate of 31.3% for the three months ended September 30, 2011. Excluding the effect of the discrete items in the third quarter of 2012, our effective tax rate for the three months ended September 30, 2012 would have been 41.6%. Excluding the effect of the discrete items and changes in the estimates of our effective tax rates in the third quarter of 2011, our effective tax rate for the three months ended September 30, 2011 would have been 40.2%. Income before income taxes includes the impact of \$5.0 million in profit interest expense and a credit of \$12.9 million reflected as negative profit interest expense for the three months ended September 30, 2012 and 2011, respectively, which is not deductible by us for income tax purposes.

Table of Contents**ADESA Results**

(Dollars in millions)	Three Months Ended September 30,	
	2012	2011
ADESA revenue	\$ 257.0	\$ 241.3
Cost of services*	147.2	137.7
Gross profit*	109.8	103.6
Selling, general and administrative	61.6	50.1
Depreciation and amortization	23.5	20.8
Operating profit	\$ 24.7	\$ 32.7

\*  
Exclusive of depreciation and amortization

*Revenue*

Revenue from ADESA increased \$15.7 million, or 7%, to \$257.0 million for the three months ended September 30, 2012, compared with \$241.3 million for the three months ended September 30, 2011. The increase in revenue was primarily a result of a 14% increase in the number of vehicles sold, partially offset by a 6% decrease in revenue per vehicle sold to approximately \$565 for the three months ended September 30, 2012, compared to over \$600 for the three months ended September 30, 2011. OPENLANE, which was acquired in the fourth quarter of 2011, accounted for approximately \$22.8 million of ADESA's revenue for the three months ended September 30, 2012.

The 6% decrease in revenue per vehicle sold was primarily attributable to lower revenue per vehicle sold at OPENLANE, as fewer ancillary services offerings are available for online vehicle sales. In addition, decreases in ancillary and related services resulted in decreased ADESA revenue of approximately \$5.9 million, as well as fluctuations in the Canadian exchange rate, which resulted in decreased ADESA revenue of approximately \$0.7 million. Partially offsetting the decreases in revenue was incremental fee income related to selective fee increases, which resulted in increased ADESA revenue of approximately \$4.1 million.

The total number of used vehicles sold at ADESA increased 14% for the three months ended September 30, 2012, compared with the three months ended September 30, 2011, and resulted in an increase in ADESA revenue of approximately \$18.2 million. Excluding OPENLANE, the total number of used vehicles sold at ADESA decreased 2% for the three months ended September 30, 2012, compared with the three months ended September 30, 2011. The decrease in same store volume sold was attributable to a decline in institutional supplier inventory levels, partially offset by an 11% (excluding OPENLANE) increase in dealer consignment units sold in the third quarter of 2012 compared with the third quarter of 2011. Online sales volume for ADESA in the third quarter of 2012 represented approximately 28% of the total vehicles sold by ADESA, compared with approximately 19% in the third quarter of 2011.

The used vehicle conversion percentage at physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, decreased to 55.3% for the three months ended September 30, 2012, compared with 57.3% for the three months ended September 30, 2011. The decrease in conversion rate is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate, as dealers have the option of returning vehicles to their stores for retail sale or utilizing alternative wholesale channels. For the three months ended September 30, 2012, dealer consignment vehicles represented approximately 51% of used vehicles sold at ADESA physical auction locations, an increase from approximately 45% for the three months ended September 30, 2011.

Table of Contents*Gross Profit*

For the three months ended September 30, 2012, gross profit for ADESA increased \$6.2 million, or 6%, to \$109.8 million, compared with \$103.6 million for the three months ended September 30, 2011. Gross profit for ADESA was 42.7% of revenue for the three months ended September 30, 2012, compared with 42.9% of revenue for the three months ended September 30, 2011. The slight decrease in gross profit as a percentage of revenue for the three months ended September 30, 2012, compared with the three months ended September 30, 2011 was primarily the result of the 7% increase in cost of services. The increase in cost of services was primarily attributable to the addition of OPENLANE costs, as well as lower conversion rates.

*Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA segment increased \$11.5 million, or 23%, to \$61.6 million for the three months ended September 30, 2012, compared with \$50.1 million for the three months ended September 30, 2011, primarily due to the acquisition and integration of OPENLANE, which accounted for approximately \$9.0 million of the increase, as well as an increase in incentive-based compensation expense, a loss on the sale of idle property and an increase in professional fees, partially offset by decreases in cash and stock-based compensation expense.

IAA Results

(Dollars in millions)	Three Months Ended September 30,	
	2012	2011
IAA revenue	\$ 167.4	\$ 164.7
Cost of services*	106.0	100.0
Gross profit*	61.4	64.7
Selling, general and administrative	14.8	20.3
Depreciation and amortization	17.1	16.4
Operating profit	\$ 29.5	\$ 28.0

\*  
Exclusive of depreciation and amortization

*Revenue*

Revenue from IAA increased \$2.7 million, or 2%, to \$167.4 million for the three months ended September 30, 2012, compared with \$164.7 million for the three months ended September 30, 2011. The increase in revenue was a result of an increase in vehicles sold of approximately 5% for the three months ended September 30, 2012. Included in the growth of units sold is an increase in the sale of vehicles sold under purchase agreements, in which the entire selling price of the vehicle is recorded as revenue. Vehicles sold under purchase agreements represented approximately 8% of total salvage vehicles sold for the quarter ended September 30, 2012, as compared with 5% for the quarter ended September 30, 2011. Online sales volumes for IAA for the three months ended September 30, 2012 and 2011 represented approximately half of the total vehicles sold by IAA.

*Gross Profit*

For the three months ended September 30, 2012, gross profit at IAA decreased to \$61.4 million, or 36.7% of revenue, compared with \$64.7 million, or 39.3% of revenue, for the three months ended September 30, 2011. The gross profit decrease was primarily the result of the 6% increase in cost of services. The increase in cost of services was attributable to increases in yard and auction expenses

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

### Table of Contents

specifically pertaining to processing and towing costs related to the increase in volume, as well as the impact of an increase in vehicles sold under purchase agreements, as the cost of these vehicles are included in the cost of services.

### *Selling, General and Administrative*

Selling, general and administrative expenses at IAA decreased \$5.5 million, or 27%, to \$14.8 million for the three months ended September 30, 2012, compared with \$20.3 million for the three months ended September 30, 2011. The decrease in selling, general and administrative expenses was attributable to a gain on the sale of excess property, as well as decreases in stock-based compensation expense and incentive-based compensation expense.

### **AFC Results**

(Dollars in millions except volumes and per loan amounts)	Three Months Ended September 30,	
	2012	2011
AFC revenue		
Interest and fee income	\$ 47.9	\$ 41.4
Other revenue	2.7	2.9
Provision for credit losses	(0.1)	(1.2)
<b>Total AFC revenue</b>	<b>50.5</b>	43.1
Cost of services*	10.9	9.6
<b>Gross profit*</b>	<b>39.6</b>	33.5
Selling, general and administrative	5.0	5.6
Depreciation and amortization	5.7	6.2
<b>Operating profit</b>	<b>\$ 28.9</b>	\$ 21.7
<b>Loan transactions</b>	<b>313,079</b>	269,131
Revenue per loan transaction	\$ 161	\$ 160

\*  
Exclusive of depreciation and amortization

### *Revenue*

For the three months ended September 30, 2012, AFC revenue increased \$7.4 million, or 17%, to \$50.5 million, compared with \$43.1 million for the three months ended September 30, 2011. The increase in revenue was the result of a 16% increase in loan transactions to 313,079 for the three months ended September 30, 2012, compared with the same period in 2011, as well as an increase in revenue per loan transaction for the three months ended September 30, 2012. In addition, managed receivables increased to \$938.5 million at September 30, 2012 from \$802.9 million at September 30, 2011.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased primarily as a result of a decrease in the provision for credit losses and an increase in the average portfolio duration, partially offset by a decrease in floorplan and other fee income, as well as a decrease in average loan values.

### *Gross Profit*

For the three months ended September 30, 2012, gross profit for the AFC segment increased \$6.1 million, or 18%, to \$39.6 million, compared with \$33.5 million for the three months ended September 30, 2011, primarily as a result of a 17% increase in revenue, partially offset by a 14%

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

### Table of Contents

increase in cost of services. The increase in cost of services was primarily the result of an increase in the number of employees.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC decreased \$0.6 million, or 11%, to \$5.0 million for the three months ended September 30, 2012, compared with \$5.6 million for the three months ended September 30, 2011. The decrease was primarily the result of decreases in incentive-based and stock-based compensation expense.

### Holding Company Results

(Dollars in millions)	Three Months Ended September 30,	
	2012	2011
Selling, general and administrative	\$ 20.9	\$ 4.4
Depreciation and amortization	0.5	0.4
Operating loss	\$ (21.4)	\$ (4.8)

#### *Selling, General and Administrative Expenses*

For the three months ended September 30, 2012, selling, general and administrative expenses at the holding company increased \$16.5 million, or 375%, to \$20.9 million, compared with \$4.4 million for the three months ended September 30, 2011, primarily as a result of an increase in stock-based compensation expense related to the KAR LLC and Axle LLC operating units (profit interests), which are remeasured each reporting period to fair value, partially offset by a decrease in professional fees. For the three months ended September 30, 2012, stock-based compensation expense related to the KAR LLC and Axle LLC operating units was \$5.0 million. For the three months ended September 30, 2011, we recognized a reduction in stock-based compensation expense related to the KAR LLC and Axle LLC operating units of \$12.9 million.

Table of Contents*Overview of Results of KAR Auction Services for the Nine Months Ended September 30, 2012 and 2011:*

(Dollars in millions except per share amounts)	Nine Months Ended September 30,	
	2012	2011
Revenues		
ADESA	\$ 791.4	\$ 767.1
IAA	534.1	513.8
AFC	144.2	125.6
Total revenues	1,469.7	1,406.5
Cost of services*	796.7	766.2
Gross profit*	673.0	640.3
Selling, general and administrative	319.9	282.5
Depreciation and amortization	143.4	131.5
Operating profit	209.7	226.3
Interest expense	89.8	112.3
Other income, net	(1.6)	(6.0)
Loss on extinguishment of debt		53.5
Income before income taxes	121.5	66.5
Income taxes	52.4	8.8
Net income	\$ 69.1	\$ 57.7
Net income per share		
Basic	\$ 0.51	\$ 0.42
Diluted	\$ 0.50	\$ 0.42

\*

Exclusive of depreciation and amortization

For the nine months ended September 30, 2012, we had revenue of \$1,469.7 million, compared with revenue of \$1,406.5 million for the nine months ended September 30, 2011, an increase of 4%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

*Depreciation and Amortization*

Depreciation and amortization increased \$11.9 million, or 9%, to \$143.4 million for the nine months ended September 30, 2012, compared with \$131.5 million for the nine months ended September 30, 2011. The increase in depreciation and amortization was primarily representative of \$12.1 million for OPENLANE in the first nine months of 2012.

*Interest Expense*

Interest expense decreased \$22.5 million, or 20%, to \$89.8 million for the nine months ended September 30, 2012, compared with interest expense of \$112.3 million for the nine months ended September 30, 2011. The decrease in interest expense was primarily representative of \$14.5 million in interest expense incurred in the second quarter of 2011 in connection with the settlement and termination of our \$650 million notional swap agreement. In addition, interest expense decreased as a result of the second quarter 2011 prepayment of our \$450.0 million principal amount 8<sup>3</sup>/<sub>4</sub>% senior notes and the remaining \$131.1 million principal balance of our 10% senior subordinated notes, partially offset by Term Loan B debt which had an interest rate of 5% at September 30, 2012, compared with our previous term loan debt which had an interest rate of approximately 3% until its prepayment in





Table of Contents

May 2011. The decrease in interest expense was also partially offset by an increase in interest expense at AFC, which resulted from an increase in the average U.S. portfolio sold in 2012 as compared with 2011, as well as an increase in the cost of funds, beginning in the second quarter of 2011.

*Other Income, Net*

We had other income of \$1.6 million for the nine months ended September 30, 2012, compared with \$6.0 million for the nine months ended September 30, 2011. The change in other income was primarily representative of \$4.6 million of contingent consideration that was reversed in the first nine months of 2011 as compared with \$1.0 million of contingent consideration recorded in 2012. The contingent consideration related to certain prior year acquisitions and the adjustments were 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. In addition, we had foreign currency transaction gains for the nine months ended September 30, 2012, compared with foreign currency transaction losses for the nine months ended September 30, 2011.

*Loss on Extinguishment of Debt*

In May 2011, we terminated our previous credit facility, entered into as of April 20, 2007, and recorded a \$24.5 million pretax charge representative of the write-off of certain unamortized debt issuance costs associated with our previous term loan. In addition, in June 2011, we prepaid \$450.0 million principal amount of the 8<sup>3</sup>/<sub>4</sub>% senior notes and the remaining \$131.1 million principal balance of the 10% senior subordinated notes with proceeds received from Term Loan B and cash on hand. As a result, we also recorded a \$29.0 million pretax charge representative of the net premiums payable related to the repurchase of these notes, the write-off of certain unamortized debt issuance costs associated with these notes, as well as certain expenses related to the prepayment of these notes.

*Income Taxes*

We had an effective tax rate of 43.1% for the nine months ended September 30, 2012, compared with an effective tax rate of 13.2% for the nine months ended September 30, 2011. Excluding the effect of the discrete items in the first nine months of 2012, our effective tax rate for the nine months ended September 30, 2012 would have been 41.6%. During the first nine months of 2011, our effective tax rate of 13.2% benefited from the reversal of \$17.9 million in reserves for uncertain tax positions due to the expiration of certain statutes of limitations. Excluding the effect of the discrete items in the first nine months of 2011, our effective tax rate for the nine months ended September 30, 2011 would have been 40.2%. Income before income taxes includes the impact of \$12.0 million in profit interest expense and a credit of \$2.5 million reflected as negative profit interest expense for the nine months ended September 30, 2012 and 2011, respectively, which is not deductible by us for income tax purposes.

Table of ContentsADESA Results

(Dollars in millions)	Nine Months Ended September 30,	
	2012	2011
ADESA revenue	\$ 791.4	\$ 767.1
Cost of services*	442.6	436.4
Gross profit*	348.8	330.7
Selling, general and administrative	189.6	157.6
Depreciation and amortization	73.6	63.2
Operating profit	\$ 85.6	\$ 109.9

\*  
Exclusive of depreciation and amortization

*Revenue*

Revenue from ADESA increased \$24.3 million, or 3%, to \$791.4 million for the nine months ended September 30, 2012, compared with \$767.1 million for the nine months ended September 30, 2011. The increase in revenue was primarily a result of an 11% increase in the number of vehicles sold, partially offset by a 7% decrease in revenue per vehicle sold to over \$550 for the nine months ended September 30, 2012, compared to approximately \$595 for the nine months ended September 30, 2011. OPENLANE, which was acquired in the fourth quarter of 2011, accounted for approximately \$65.4 million of ADESA's revenue for the nine months ended September 30, 2012.

The 7% decrease in revenue per vehicle sold was primarily attributable to lower revenue per vehicle sold at OPENLANE, as fewer ancillary services offerings are available for online vehicle sales. In addition, decreases in ancillary and related services resulted in decreased ADESA revenue of approximately \$21.9 million, as well as fluctuations in the Canadian exchange rate, which resulted in decreased ADESA revenue of approximately \$4.0 million. Partially offsetting the decreases in revenue was incremental fee income related to selective fee increases, which resulted in increased ADESA revenue of approximately \$16.9 million.

The total number of used vehicles sold at ADESA increased 11% for the nine months ended September 30, 2012, compared with the nine months ended September 30, 2011, and resulted in an increase in ADESA revenue of approximately \$33.3 million. Excluding OPENLANE, the total number of used vehicles sold at ADESA decreased approximately 5% for the nine months ended September 30, 2012, compared with the nine months ended September 30, 2011. The decrease in same store volume sold was attributable to a decline in institutional supplier inventory levels, partially offset by a 12% (excluding OPENLANE) increase in dealer consignment units sold in the first nine months of 2012 compared with the first nine months of 2011. Online sales volume for ADESA in the first nine months of 2012 represented approximately 30% of the total vehicles sold by ADESA, compared with approximately 22% in the first nine months of 2011.

The used vehicle conversion percentage at physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, decreased to 57.8% for the nine months ended September 30, 2012, compared with 61.6% for the nine months ended September 30, 2011. The decrease in conversion rate is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate, as dealers have the option of returning vehicles to their stores for retail sale or utilizing alternative wholesale channels. For the nine months ended September 30, 2012, dealer consignment vehicles represented approximately 49% of used vehicles sold at ADESA physical auction locations, an increase from approximately 42% for the nine months ended September 30, 2011.

Table of Contents*Gross Profit*

For the nine months ended September 30, 2012, gross profit for ADESA increased \$18.1 million, or 5%, to \$348.8 million, compared with \$330.7 million for the nine months ended September 30, 2011. Gross profit for ADESA was 44.1% of revenue for the nine months ended September 30, 2012, compared with 43.1% of revenue for the nine months ended September 30, 2011. The increase in gross profit as a percentage of revenue for the nine months ended September 30, 2012, compared with the nine months ended September 30, 2011 was primarily the result of the 11% increase in the number of vehicles sold, partially offset by a 1% increase in cost of services. The increase in cost of services was primarily attributable to the addition of OPENLANE costs, as well as lower conversion rates, partially offset by lower utilization of ancillary and related services, as well as lower costs due to favorable weather.

*Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA segment increased \$32.0 million, or 20%, to \$189.6 million for the nine months ended September 30, 2012, compared with \$157.6 million for the nine months ended September 30, 2011, primarily due to the acquisition and integration of OPENLANE, which accounted for approximately \$29.6 million of the increase, as well as an increase in incentive-based compensation expense and a loss on the sale of idle property, partially offset by decreases in cash and stock-based compensation expense as well as fluctuations in the Canadian exchange rate.

IAA Results

(Dollars in millions)	Nine Months Ended September 30,	
	2012	2011
IAA revenue	\$ 534.1	\$ 513.8
Cost of services*	322.8	301.4
Gross profit*	211.3	212.4
Selling, general and administrative	52.7	59.9
Depreciation and amortization	50.8	48.9
Operating profit	\$ 107.8	\$ 103.6

---

\*

Exclusive of depreciation and amortization

*Revenue*

Revenue from IAA increased \$20.3 million, or 4%, to \$534.1 million for the nine months ended September 30, 2012, compared with \$513.8 million for the nine months ended September 30, 2011. The increase in revenue was a result of an increase in vehicles sold of approximately 5% for the nine months ended September 30, 2012. Included in the growth of units sold is an increase in the sale of vehicles sold under purchase agreements, in which the entire selling price of the vehicle is recorded as revenue. Vehicles sold under purchase agreements represented approximately 7% of total salvage vehicles sold for the nine months ended September 30, 2012, as compared with 5% for the nine months ended September 30, 2011. Online sales volumes for IAA for the nine months ended September 30, 2012 and 2011 represented approximately half of the total vehicles sold by IAA.

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

### Table of Contents

#### *Gross Profit*

For the nine months ended September 30, 2012, gross profit at IAA decreased to \$211.3 million, or 39.6% of revenue, compared with \$212.4 million, or 41.3% of revenue, for the nine months ended September 30, 2011. The gross profit decrease was primarily the result of the 7% increase in cost of services. The decrease in gross profit as a percentage of revenue was attributable to increases in yard and auction expenses specifically pertaining to processing and towing costs related to the increase in volume, as well as the impact of an increase in vehicles sold under purchase agreements, as the cost of these vehicles are included in the cost of services.

#### *Selling, General and Administrative*

Selling, general and administrative expenses at IAA decreased \$7.2 million, or 12%, to \$52.7 million for the nine months ended September 30, 2012, compared with \$59.9 million for the nine months ended September 30, 2011. The decrease in selling, general and administrative expenses was attributable to a gain on the sale of excess property, as well as decreases in stock-based compensation expense and incentive-based compensation expense.

### AFC Results

(Dollars in millions except volumes and per loan amounts)	Nine Months Ended September 30,	
	2012	2011
AFC revenue		
Interest and fee income	\$ 140.8	\$ 120.6
Other revenue	8.0	8.7
Provision for credit losses	(4.6)	(3.7)
<b>Total AFC revenue</b>	<b>144.2</b>	125.6
Cost of services*	31.3	28.4
<b>Gross profit*</b>	<b>112.9</b>	97.2
Selling, general and administrative	16.1	16.2
Depreciation and amortization	17.6	18.6
<b>Operating profit</b>	<b>\$ 79.2</b>	\$ 62.4
<b>Loan transactions</b>	<b>924,892</b>	792,874
Revenue per loan transaction	\$ 156	\$ 158

\*  
Exclusive of depreciation and amortization

#### *Revenue*

For the nine months ended September 30, 2012, AFC revenue increased \$18.6 million, or 15%, to \$144.2 million, compared with \$125.6 million for the nine months ended September 30, 2011. The increase in revenue was the result of a 17% increase in loan transactions to 924,892 for the nine months ended September 30, 2012, compared with the same period in 2011, partially offset by a 1% decrease in revenue per loan transaction for the nine months ended September 30, 2012. In addition, managed receivables increased to \$938.5 million at September 30, 2012 from \$802.9 million at September 30, 2011.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased primarily as a result of a decrease in average loan values and a decrease in floorplan and other fee income, partially offset by an increase in the average portfolio duration.

Table of Contents*Gross Profit*

For the nine months ended September 30, 2012, gross profit for the AFC segment increased \$15.7 million, or 16%, to \$112.9 million, compared with \$97.2 million for the nine months ended September 30, 2011, primarily as a result of a 15% increase in revenue, partially offset by a 10% increase in cost of services. The increase in cost of services was primarily the result of an increase in the number of employees, as well as increases in employee benefit costs, lot check and filing fees.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC decreased \$0.1 million, or 1%, to \$16.1 million for the nine months ended September 30, 2012, compared with \$16.2 million for the nine months ended September 30, 2011. The decrease was primarily the result of decreases in professional fees and stock-based compensation expense, partially offset by increases in compensation expense and postage expense.

Holding Company Results

(Dollars in millions)	Nine Months Ended September 30,	
	2012	2011
Selling, general and administrative	\$ 61.5	\$ 48.8
Depreciation and amortization	1.4	0.8
Operating loss	\$ (62.9)	\$ (49.6)

*Selling, General and Administrative Expenses*

For the nine months ended September 30, 2012, selling, general and administrative expenses at the holding company increased \$12.7 million, or 26%, to \$61.5 million, compared with \$48.8 million for the nine months ended September 30, 2011, primarily as a result of an increase in stock-based compensation expense related to the KAR LLC and Axle LLC operating units (profit interests), which are remeasured each reporting period to fair value, partially offset by decreases in employee benefit costs and incentive-based compensation expense. For the nine months ended September 30, 2012, stock-based compensation expense related to the KAR LLC and Axle LLC operating units was \$12.0 million. For the nine months ended September 30, 2011, we recognized a reduction in stock-based compensation expense related to the KAR LLC and Axle LLC operating units of \$2.5 million.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

We believe that the significant indicators of liquidity for our business are cash on hand, cash flow from operations, working capital and amounts available under our credit facility. Our principal sources of liquidity consist of cash generated by operations and borrowings under our revolving credit facility.

(Dollars in millions)	September 30, 2012	December 31, 2011	September 30, 2011
Cash and cash equivalents	\$ 163.7	\$ 97.4	\$ 203.6
Restricted cash	7.7	8.2	6.7
Working capital	319.4	177.0	330.6
Amounts available under credit facility*	250.0	181.1	250.0
Cash flow from operations	238.0		205.5

\*

There were related outstanding letters of credit totaling approximately \$22.8 million, \$28.5 million and \$28.8 million at September 30, 2012, December 31, 2011 and September 30, 2011, respectively, which reduced the amount available for borrowings under the credit facility.

**Working Capital**

A substantial amount of our working capital is generated from the payments received for services provided. The majority of our working capital needs are short-term in nature, usually less than a week in duration. Due to the decentralized nature of the business, payments for most vehicles purchased are received at each auction and branch. Most of the financial institutions place a temporary hold on the availability of the funds deposited that generally can range up to two business days, resulting in cash in our accounts and on our balance sheet that is unavailable for use until it is made available by the various financial institutions. There are outstanding checks (book overdrafts) to sellers and vendors included in current liabilities. Because a portion of these outstanding checks for operations in the U.S. are drawn upon bank accounts at financial institutions other than the financial institutions that hold the cash, we cannot offset all the cash and the outstanding checks on our balance sheet.

Our available cash, which excludes cash in transit, was \$130.5 million at September 30, 2012. Of this amount, approximately \$56.9 million was held by foreign subsidiaries and considered to be permanently reinvested in our non-U.S. businesses. If the funds held by our foreign subsidiaries were to be repatriated, tax expense would need to be accrued at the U.S. statutory rate, net of any applicable foreign tax credits. Such foreign tax credits would substantially offset any U.S. taxes that would be due in the event cash held by our foreign subsidiaries was repatriated.

AFC offers short-term inventory-secured financing, also known as floorplan financing, to used vehicle dealers. Financing is primarily provided for terms of 30 to 60 days. AFC principally generates its funding through the sale of its receivables. The receivables sold pursuant to the securitization agreements are accounted for as secured borrowings. For further discussion of AFC's securitization arrangements, see "Securitization Facilities."

**Credit Facilities**

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

Table of Contents

On September 30, 2012, \$1,678.7 million was outstanding on Term Loan B and there were no borrowings on the revolving credit facility. In addition, there were related outstanding letters of credit in the aggregate amount of \$22.8 million at September 30, 2012, which reduce the amount available for borrowings under the credit facility. Our Canadian operations also have a C\$8 million line of credit which was undrawn as of September 30, 2012. However, there were related letters of credit outstanding totaling approximately C\$2.2 million at September 30, 2012, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility.

The Credit Agreement contains certain restrictive loan covenants, including, among others, a financial covenant requiring that a maximum consolidated senior secured leverage ratio be satisfied as of the last day of each fiscal quarter if revolving loans are outstanding, and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, consummate change of control transactions, dispose of assets, pay dividends, make capital expenditures, make investments and engage in certain transactions with affiliates. The leverage ratio covenant is based on consolidated Adjusted EBITDA which is EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude among other things (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock option expense; (e) certain other noncash amounts included in the determination of net income; (f) management, monitoring, consulting and advisory fees paid to the equity sponsors; (g) charges and revenue reductions resulting from purchase accounting; (h) unrealized gains and losses on hedge agreements; (i) minority interest; (j) expenses associated with the consolidation of salvage operations; (k) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (l) expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts; (m) expenses incurred in connection with permitted acquisitions; and (n) any impairment charges or write-offs of intangibles.

Certain covenants contained within the Credit Agreement are critical to an investor's understanding of our financial liquidity, as the failure to maintain compliance with these covenants could result in a default and allow our lenders to declare all amounts borrowed immediately due and payable. The maximum consolidated senior secured leverage ratio is required to be met when there are revolving loans outstanding under our Credit Agreement. The maximum consolidated senior secured leverage ratio could not exceed 4.25 to 1.0 as of the last day of any fiscal quarter through September 30, 2012. Beginning with the quarter ending December 31, 2012, the ratio cannot exceed 4.0 to 1.0 and continues to decline throughout the remaining life of the credit facility until it reaches 2.5 to 1.0 at December 31, 2015. Our actual consolidated senior secured leverage ratio was 3.2 to 1.0 at September 30, 2012.

In addition, the indenture governing our floating rate senior notes contains certain financial and operational restrictions that, similar to the Credit Agreement, limit our ability to pay dividends and other distributions, make certain acquisitions or investments, incur indebtedness, grant liens and sell assets. The covenants in the Credit Agreement and the indenture governing our floating rate senior notes affect our operating flexibility by, among other things, restricting our ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. We were in compliance with the covenants in the Credit Agreement and the indenture governing our floating rate senior notes at September 30, 2012.

We believe our sources of liquidity from our cash and cash equivalents on hand, working capital, cash provided by operating activities, and availability under our credit facility are sufficient to meet our short and long-term operating needs for the foreseeable future. In addition, we believe the previously mentioned sources of liquidity will be sufficient to fund our capital requirements and debt service payments for the next twelve months.



Table of Contents

***Securitization Facilities***

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

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

AFC managed total finance receivables of \$938.5 million and \$883.2 million at September 30, 2012 and December 31, 2011, respectively. AFC's allowance for losses was \$8.0 million and \$9.0 million at September 30, 2012 and December 31, 2011.

As of September 30, 2012 and December 31, 2011, \$929.3 million and \$877.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the \$633.5 million and \$610.3 million of obligations collateralized by finance receivables at September 30, 2012 and December 31, 2011, respectively. After the occurrence of a termination event, as defined in the U.S. 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, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our credit facility. At September 30, 2012, we were in compliance with the covenants in the securitization agreements.

Table of Contents**EBITDA and Adjusted EBITDA**

EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for net income (loss) or any other performance measures derived in accordance with GAAP.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings, as described above in the discussion of certain restrictive loan covenants under "Credit Facilities."

Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors about one of the principal measures of performance used by our creditors. In addition, management uses Adjusted EBITDA to evaluate our performance and to evaluate results relative to incentive compensation targets. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following tables reconcile EBITDA and Adjusted EBITDA to net income (loss) for the periods presented:

<b>Three Months Ended September 30, 2012</b>					
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
<b>Net income (loss)</b>	\$ 5.6	\$ 12.2	\$ 18.8	\$ (17.4)	\$ 19.2
Add back:					
Income taxes	4.6	7.7	10.9	(9.4)	13.8
Interest expense, net of interest income	0.1	0.3	3.8	25.6	29.8
Depreciation and amortization	23.5	17.1	5.7	0.5	46.8
Intercompany	15.0	9.5	(4.6)	(19.9)	
<b>EBITDA</b>	48.8	46.8	34.6	(20.6)	109.6
Adjustments	5.6	(2.2)	(2.6)	6.9	7.7
<b>Adjusted EBITDA</b>	\$ 54.4	\$ 44.6	\$ 32.0	\$ (13.7)	\$ 117.3

<b>Three Months Ended September 30, 2011</b>					
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
<b>Net income (loss)</b>	\$ 14.1	\$ 9.7	\$ 14.1	\$ (5.7)	\$ 32.2
Add back:					
Income taxes	3.9	6.9	8.0	(4.1)	14.7
Interest expense, net of interest income	0.1	0.5	3.4	25.3	29.3
Depreciation and amortization	20.8	16.4	6.2	0.4	43.8
Intercompany	14.8	9.6	(3.8)	(20.6)	
<b>EBITDA</b>	53.7	43.1	27.9	(4.7)	120.0
Adjustments	3.7	3.8	(1.9)	(9.9)	(4.3)
<b>Adjusted EBITDA</b>	\$ 57.4	\$ 46.9	\$ 26.0	\$ (14.6)	\$ 115.7

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

Table of Contents

**Nine Months Ended September 30, 2012**

(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
<b>Net income (loss)</b>	\$ 21.9	\$ 46.7	\$ 51.3	\$ (50.8)	\$ 69.1
Add back:					
Income taxes	19.5	30.8	29.8	(27.7)	52.4
Interest expense, net of interest income	0.7	1.1	11.2	76.7	89.7
Depreciation and amortization	73.6	50.8	17.6	1.4	143.4
Intercompany	45.2	28.7	(13.1)	(60.8)	
<b>EBITDA</b>	160.9	158.1	96.8	(61.2)	354.6
Adjustments	16.5	0.3	(7.4)	16.3	25.7
<b>Adjusted EBITDA</b>	\$ 177.4	\$ 158.4	\$ 89.4	\$ (44.9)	\$ 380.3

**Nine months Ended September 30, 2011**

(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
<b>Net income (loss)</b>	\$ 57.8	\$ 49.6	\$ 42.2	\$ (91.9)	\$ 57.7
Add back:					
Income taxes	14.9	28.9	22.3	(57.3)	8.8
Interest expense, net of interest income	0.5	1.6	8.5	101.5	112.1
Depreciation and amortization	63.2	48.9	18.6	0.8	131.5
Intercompany	37.5	28.8	(10.6)	(55.7)	
<b>EBITDA</b>	173.9	157.8	81.0	(102.6)	310.1
Adjustments	10.6	2.6	(4.9)	56.7	65.0
<b>Adjusted EBITDA</b>	\$ 184.5	\$ 160.4	\$ 76.1	\$ (45.9)	\$ 375.1

Certain of our loan covenant calculations utilize financial results for the most recent four consecutive fiscal quarters. The following table reconciles EBITDA and Adjusted EBITDA to net income (loss) for the periods presented:

(Dollars in millions)	Three Months Ended				Twelve Months Ended
	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012	September 30, 2012
<b>Net income (loss)</b>	\$ 14.5	\$ 26.0	\$ 23.9	\$ 19.2	\$ 83.6
Add back:					
Income taxes	9.0	18.4	20.2	13.8	61.4
Interest expense, net of interest income	30.7	30.3	29.6	29.8	120.4
Depreciation and amortization	48.3	48.6	48.0	46.8	191.7
<b>EBITDA</b>	102.5	123.3	121.7	109.6	457.1
Nonrecurring charges	5.2	5.4	3.2	4.0	17.8
Noncash charges	7.1	9.1	6.1	6.8	29.1
AFC interest expense	(2.7)	(2.9)	(2.9)	(3.1)	(11.6)
<b>Adjusted EBITDA</b>	\$ 112.1	\$ 134.9	\$ 128.1	\$ 117.3	\$ 492.4



Table of Contents**Summary of Cash Flows**

(Dollars in millions)	Nine Months Ended September 30,	
	2012	2011
Net cash provided by (used by):		
Operating activities	\$ 238.0	\$ 205.5
Investing activities	(112.5)	(106.7)
Financing activities	(62.3)	(11.2)
Effect of exchange rate on cash	3.1	(3.1)
Net increase in cash and cash equivalents	\$ 66.3	\$ 84.5

Cash flow from operating activities was \$238.0 million for the nine months ended September 30, 2012, compared with \$205.5 million for the nine months ended September 30, 2011. The increase in operating cash flow was primarily impacted by the changes in operating assets and liabilities for the nine months ended September 30, 2012, compared with the nine months ended September 30, 2011.

Net cash used by investing activities was \$112.5 million for the nine months ended September 30, 2012, compared with \$106.7 million for the nine months ended September 30, 2011. The increase in net cash used by investing activities was primarily the result of the change in finance receivables held for investment. Partially offsetting the aforementioned activity were lower levels of spending on acquisitions and capital items, as we spent \$4.0 million less on acquisitions and \$3.4 million less on capital items in the first nine months of 2012 compared with the same period in 2011. For a discussion of the Company's capital expenditures, see "Capital Expenditures" below.

Net cash used by financing activities was \$62.3 million for the nine months ended September 30, 2012, compared with \$11.2 million for the nine months ended September 30, 2011. The change in net cash used by financing activities was primarily attributable to the repayment of \$68.9 million that was outstanding on our revolving credit facility, as well as a smaller increase in book overdrafts for the nine months ended September 30, 2012, compared with the nine months ended September 30, 2011.

**Capital Expenditures**

Capital expenditures for the nine months ended September 30, 2012 and 2011 approximated \$60.8 million and \$64.2 million, respectively. Capital expenditures were funded primarily from internally generated funds. We continue to invest in our core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately \$90 million for fiscal year 2012, compared with \$85.8 million for the year ended December 31, 2011. Anticipated expenditures are primarily attributable to ongoing information system projects, integration of OPENLANE and ADESA information systems, upkeep and improvements at existing vehicle auction facilities, improvements in information technology systems and infrastructure and expansion and relocation of existing auction sites that are at capacity. Future capital expenditures could vary substantially based on capital project timing and the initiation of new information systems projects to support our business strategies.

**Contractual Obligations**

The Company's contractual cash obligations for long-term debt, interest payments related to long-term debt, capital lease obligations, operating leases and postretirement benefit payments were summarized in the table of contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2011. Since December 31, 2011, there have been no material changes to the contractual obligations of the Company, other than in the first quarter of 2012, in which we repaid the \$68.9 million that was outstanding on our revolving credit facility at December 31, 2011.

Table of Contents

See Note 6 to the Consolidated Financial Statements, included elsewhere in this Quarterly Report on Form 10-Q, for additional information about the item described above. Our contractual cash obligations as of December 31, 2011, are discussed in the "Contractual Obligations" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission.

**Critical Accounting Estimates**

Our critical accounting estimates are discussed in the "Critical Accounting Estimates" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission. In addition, our most significant accounting policies are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, which includes audited financial statements.

**New Accounting Standards**

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. The new guidance permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If it is determined through the qualitative assessment that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012; however, early adoption is permitted. We do not expect the adoption of ASU 2012-02 will have a material impact on the consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Foreign Currency**

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. We have not entered into any foreign exchange contracts to hedge changes in the Canadian or Mexican exchange rates. Canadian currency translation negatively affected net income by approximately \$0.1 million and \$0.8 million for the three and nine months ended September 30, 2012, respectively. Currency exposure of our Mexican operations is not material to the results of operations.

**Interest Rates**

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. We use interest rate derivative agreements to manage the variability of cash flows to be paid due to interest rate movements on our variable rate debt. We have designated our interest rate derivatives as cash flow hedges. The earnings impact of the derivatives designated as cash flow hedges are recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in

Table of Contents

current earnings. There was no significant ineffectiveness in the nine months ended September 30, 2012 or 2011.

In August 2011, we purchased three interest rate caps for an aggregate amount of approximately \$1.1 million with an aggregate notional amount of \$925 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility when one-month LIBOR exceeds 1.25%. The interest rate cap agreements each had an effective date of August 16, 2011 and each mature on August 16, 2013.

A sensitivity analysis of the impact on our variable rate debt instruments to a hypothetical 100 basis point increase in short-term rates for the three and nine months ended September 30, 2012 would have resulted in an increase in interest expense of approximately \$0.4 million and \$1.5 million, respectively.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

Certain legal proceedings in which the Company is involved are discussed in Note 16 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011 and Part I, Item 3 of the same Annual Report. The following discussion is limited to certain recent developments concerning our legal and regulatory proceedings and should be read in conjunction with the Annual Report. Unless otherwise indicated, all proceedings discussed in the Annual Report remain outstanding.

***IAA Lower Duwamish Waterway***

On March 25, 2008, the United States Environmental Protection Agency, or EPA, issued a General Notice of Potential Liability (the "General Notice") pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or "CERCLA" to IAA for a Superfund site known as the Lower Duwamish Waterway ("LDW") Superfund Site in Seattle, Washington. IAA operates a branch on property it leases in Tukwila, Washington, which is located adjacent to the LDW. At this time, the EPA has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA has advised IAA that, to date, it has sent out approximately 60 general notice letters to other parties, and has sent Section 104(e) Requests to more than 250 other parties. A remedial investigation has been conducted for this site by some of the potentially responsible parties, who have also commenced a feasibility study pursuant to CERCLA. IAA is aware that certain authorities plan to bring Natural Resource Damage claims against potentially responsible parties. In the General Notice, the EPA informed IAA that it may be a potentially responsible party based on presently available information. At this time, the Company does not have adequate information to determine IAA's responsibility for contamination at this site, if any, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of Ecology is working with the EPA in relation to the LDW, primarily to investigate and address sources of potential contamination contributing to the LDW. IAA, the current Tukwila property owner and the former Tukwila property owner are currently in discussion with the Washington State Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system. In 2011, IAA submitted results of its stormwater system investigation to comply with the Washington State Department of Ecology source control requirements. Additional source control obligations, if any, are not expected to have a material impact on future recurring operating costs.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future



Table of Contents

results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

a)

Exhibits the exhibit list in the Exhibit Index is incorporated herein by reference as the list of exhibits required as part of this report.

In reviewing the agreements included as exhibits to this Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about KAR Auction Services, ADESA, IAA or other parties to the agreements.

The agreements included or incorporated by reference as exhibits to this Quarterly Report on Form 10-Q contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Quarterly Report on Form 10-Q not misleading. Additional information about KAR Auction Services may be found elsewhere in this Quarterly Report on Form 10-Q and KAR Auction Services' other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KAR Auction Services, Inc.  
(Registrant)

Date: November 7, 2012

/s/ ERIC M. LOUGHMILLER

---

Eric M. Loughmiller  
*Executive Vice President and Chief Financial Officer*  
*(Duly Authorized Officer and Principal Financial and Accounting Officer)*

63

---

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	S-1/A	333-161907	3.1	12/10/2009	
3.2	Amended and Restated By-Laws of KAR Auction Services, Inc.	S-1/A	333-161907	3.2	12/10/2009	
4.1	Indenture, dated April 20, 2007 (the "Floating Senior Indenture"), among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), the guarantors from time to time parties thereto and Wells Fargo Bank, National Association, as Trustee, for \$150,000,000 Floating Rate Senior Notes due 2014	S-4	333-148847	4.1	1/25/2008	
4.2	Form of common stock certificate	S-1/A	333-161907	4.15	12/10/2009	
10.1	Credit Agreement, dated May 19, 2011, among KAR Auction Services, Inc., as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, as sole lead arranger, J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Barclays Capital and Deutsche Bank Securities Inc., as joint bookrunners, Goldman Sachs Lending Partners LLC, as syndication agent, and Barclays Bank PLC and Deutsche Bank Securities Inc., as co-documentation agents	10-Q	001-34568	10.1	8/9/2011	
10.2	Guarantee and Collateral Agreement, dated May 19, 2011, made by KAR Auction Services, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, N.A., as administrative agent under the Credit Agreement	10-Q	001-34568	10.2	8/9/2011	

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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.3	Intellectual Property Security Agreement, dated May 19, 2011, made by KAR Auction Services, Inc., ADESA, Inc., Automotive Finance Corporation, Automotive Finance Consumer Division, LLC and Insurance Auto Auctions, Inc., in favor of JPMorgan Chase Bank, N.A., as administrative agent for the secured parties (as defined in the Credit Agreement)	10-Q	001-34568	10.3	8/9/2011	
10.4*	Letter Agreement, dated February 24, 2010, between KAR LLC and Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek, Scott P. Pettit, John Kett, John Nordin and Sidney Kerley	10-K	001-34568	10.5	2/25/2010	
10.5*	Conversion Option Plan of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.)	S-1/A	333-158666	10.9	6/17/2009	
10.6a*	Form of Conversion Stock Option Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek, Scott P. Pettit, John Kett, John Nordin and Sidney Kerley	S-4	333-148847	10.10	1/25/2008	
10.6b*	Form of Amendment to Conversion Stock Option Agreement, dated October 30, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek and Scott P. Pettit	S-4	333-148847	10.11	1/25/2008	
10.6c*	Form of Amendment to Conversion Stock Option Agreements, dated February 19, 2009, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek and Scott P. Pettit	10-K	333-148847	10.10	3/11/2009	

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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.7*	Form of Rollover Stock Option Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-4	333-148847	10.12	1/25/2008	
10.8*	Form of Conversion Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-1/A	333-158666	10.13	6/17/2009	
10.9*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032	10.1	12/24/2009	
10.10*	Form of Nonqualified Stock Option Agreement of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) pursuant to the Stock Incentive Plan	S-4	333-148847	10.15	1/25/2008	
10.11*	Severance, Release and Waiver Agreement, dated February 18, 2011, between KAR Auction Services, Inc. and John Nordin	10-K	001-34568	10.12c	2/24/2011	
10.12*	Letter Agreement dated December 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), Automotive Finance Corporation and Donald S. Gottwald	10-K	001-34568	10.15	2/25/2010	
10.13a*	Amended and Restated Employment Agreement, dated April 2, 2001, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	S-4	333-148847	10.22	1/25/2008	
10.13b*	Amendment to Amended and Restated Employment Agreement, dated December 1, 2008, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	10-K	333-148847	10.31	3/11/2009	
10.14*	Severance and Consulting Agreement, dated August 15, 2011, between Peter Kelly and ADESA, Inc.	10-K	001-34568	10.14	2/28/2012	
10.15*	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	

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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.16a^	Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated April 20, 2007	S-1/A	333-158666	10.23	7/2/2009	
10.16b	First Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 10, 2009	10-K	001-34568	10.16b	2/28/2012	
10.16c	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 15, 2009	10-K	001-34568	10.16c	2/28/2012	
10.16d	Third Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated February 27, 2012	10-K	001-34568	10.16d	2/28/2012	
10.17a	Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated May 25, 2005	S-1/A	333-158666	10.24	6/17/2009	
10.17b	Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated November 2, 2006	S-4	333-148847	10.25	1/25/2008	
10.17c	First Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated April 20, 2007	S-4	333-148847	10.26	1/25/2008	
10.18*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program	10-K	333-148847	10.29	3/11/2009	
10.19a^	Amended and Restated Purchase and Sale Agreement, dated May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation	S-4	333-148847	10.32	1/25/2008	
10.19b	Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.19c	Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.19d^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	

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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.19e	Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.19f	Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.20a^	Fourth Amended and Restated Receivables Purchase Agreement, dated April 26, 2011, among AFC Funding Corporation, Automotive Finance Corporation, Fairway Finance Company, LLC, Monterey Funding LLC, Salisbury Receivables Company LLC, Deutsche Bank AG, New York Branch, Barclays Bank PLC and BMO Capital Markets Corp.	10-Q/A	001-34568	10.20	1/17/2012	
10.20b	Amendment No. 1 to Fourth Amended and Restated Receivables Purchase Agreement, dated May 20, 2011	10-K	001-34568	10.20b	2/28/2012	
10.20c^	Amendment No. 2 to Fourth Amended and Restated Receivables Purchase Agreement, dated October 12, 2011	10-K	001-34568	10.20c	2/28/2012	
10.20d^	Amendment No. 3 to Fourth Amended and Restated Receivables Purchase Agreement, dated April 2, 2012	10-Q	001-34568	10.20d	8/7/2012	
10.21a^	Amended and Restated Receivables Purchase Agreement, dated May 24, 2011, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada	10-Q/A	001-34568	10.22	1/17/2012	
10.21b^	Amending Agreement to Amended and Restated Receivables Purchase Agreement, dated August 1, 2012, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada					X
10.22a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.3	9/9/2008	

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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.22b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.11	9/9/2008	
10.23a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.4	9/9/2008	
10.23b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.12	9/9/2008	
10.24a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and ADESA San Diego, LLC and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.5	9/9/2008	
10.24b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.13	9/9/2008	
10.25a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.6	9/9/2008	
10.25b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.14	9/9/2008	
10.26a	Ground Lease, dated September 4, 2008, between ADESA Washington, LLC and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.7	9/9/2008	
10.26b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.15	9/9/2008	



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

Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.27a	Ground Lease, dated September 4, 2008, between ADESA Texas, Inc. and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.8	9/9/2008	
10.27b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.16	9/9/2008	
10.28a	Ground Lease, dated September 4, 2008, between ADESA Florida, LLC and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.10	9/9/2008	
10.28b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.18	9/9/2008	
10.29a	Ground Sublease, dated October 3, 2008, between ADESA Atlanta, LLC and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.21	11/13/2008	
10.29b	Guaranty of Lease, dated October 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.22	11/13/2008	
10.30	Director Designation Agreement, dated December 10, 2009, among KAR Auction Services, Inc. (formerly known as KAR Holdings, Inc.) and KAR Holdings II, LLC	10-K	001-34568	10.34	2/24/2011	
10.31*	Form of KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	S-8	333-164032	10.2	12/24/2009	
10.32a*	Form of KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032	10.3	12/24/2009	
10.32b*	Amendment No. 1 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated March 31, 2010	10-Q	001-34568	10.60	8/4/2010	
10.32c*	Amendment No. 2 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated April 1, 2010	10-Q	001-34568	10.61	8/4/2010	

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

### Table of Contents

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
10.33*	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.34*	Form of Director Restricted Share Agreement	10-Q	001-34568	10.63	8/4/2010	
10.35*	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	
10.36*	Form of Restricted Share Agreement	S-1/A	333-161907	10.66	12/4/2009	
10.37	Agreement and Plan of Merger dated as of August 15, 2011 by and among ADESA, Inc., Riley Acquisition, Inc., KAR Auction Services, Inc., OPENLANE, Inc. and Shareholder Representative Services LLC, as the securityholders representative	8-K	001-34568	2.1	8/15/2011	
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS**	XBRL Instance Document					X
101.SCH**	XBRL Taxonomy Extension Schema					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase					X

^

Portions of this exhibit have been redacted pursuant to a request for confidential treatment filed separately with the Secretary of the Securities and Exchange Commission pursuant to Rule 406 under the Securities Act of 1933, as amended.

Table of Contents

\*

Denotes management contract or compensation plan, contract or arrangement.

\*\*

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.