KAR Auction Services, Inc.
Form S-1/A
December 10, 2009
Table of Contents

As filed with the Securities and Exchange Commission on December 10, 2009

Registration No. 333-161907

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 5

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KAR Auction Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**5010**	**20-8744739**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(800) 923-3725

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Rebecca C. Polak

Executive Vice President and General Counsel

KAR Auction Services, Inc.

13085 Hamilton Crossing Boulevard

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Subject to Completion. Dated December 10, 2009.

23,000,000 Shares

KAR Auction Services, Inc.

Common Stock

This is an initial public offering of shares of common stock of KAR Auction Services, Inc. All of the shares of common stock are being sold by us.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $15.00 and $17.00. Our common stock has been approved for listing on the New York Stock Exchange under the symbol KAR, subject to official notice of issuance.

See Risk Factors beginning on page 14 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	**Total**
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to KAR Auction Services, Inc.	$	$

To the extent that the underwriters sell more than 23,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 3,450,000 shares from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2009.

Goldman, Sachs & Co. **Credit Suisse**
BofA Merrill Lynch **J.P. Morgan**

Barclays Capital **BMO Capital Markets**

Baird **Barrington Research**
BB&T Capital Markets **RBC Capital Markets**

Stephens Inc.

Prospectus dated , 2009.

Table of Contents

Table of Contents

TABLE OF CONTENTS

Prospectus

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Table of Contents

INDUSTRY AND MARKET DATA

This prospectus includes estimates of market share and industry data and forecasts that we obtained from industry publications and surveys and internal company sources. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. All information regarding our market share is based on the latest market data currently available to us. Our estimates involve risks and uncertainties, and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus. In this prospectus, references to our market share or market position for ADESA and IAAI are based on the number of vehicles sold annually.

DEFINED TERMS

Unless otherwise indicated, the following terms used in this prospectus have the following meanings:

- we, us, our and the Company refer, collectively, to KAR Auction Services, Inc. (formerly known as KAR Holdings, Inc.) and all of it subsidiaries;
- 2007 Transactions refers to the transactions described in Combination of ADESA and IAAI ;
- ADESA refers, collectively, to ADESA, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries;
- AFC refers, collectively, to Automotive Finance Corporation, a wholly owned subsidiary of ADESA and its subsidiaries;
- ALLETE refers to ALLETE, Inc. the former parent company of ADESA;
- AutoVIN refers to AutoVIN, Inc., our wholly owned subsidiary;
- Credit Agreement refers to the Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended;
- Equity Sponsors refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P., which own through their respective affiliates substantially all of the equity of KAR Auction Services;
- fixed senior notes refers to KAR Auction Services 8¾% Senior Notes due May 1, 2014 ($450.0 million aggregate principal amount currently outstanding);

floating senior notes refers to KAR Auction Services Floating Rate Senior Notes due May 1, 2014 ($150.0 million aggregate principal amount currently outstanding);

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

KAR Auction Services and the issuer refer to KAR Auction Services, Inc., and not to its subsidiaries;

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

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

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

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

senior subordinated notes refers to KAR Auction Services 10% Senior Subordinated Notes due May 1, 2015 ($425.0 million aggregate principal amount currently outstanding).

COMBINATION OF ADESA AND IAAI

KAR Auction Services is a holding company that was organized for the purpose of consummating a merger with ADESA and related transactions that resulted in ADESA and IAAI becoming, directly or indirectly, wholly owned subsidiaries of the Company. The Company had no operations prior to the transactions on April 20, 2007.

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

The following transactions occurred in connection with the merger:

Approximately 90.8 million shares of ADESA s outstanding common stock converted into the right to receive $27.85 per share in cash.

Approximately 3.4 million outstanding options to purchase shares of ADESA s common stock were cancelled in exchange for payments in cash of $27.85 per underlying share, less the applicable option exercise price, resulting in net proceeds to holders of $18.6 million.

Approximately 0.3 million outstanding restricted stock and restricted stock units of ADESA vested immediately and were paid out in cash of $27.85 per unit.

Affiliates of the Equity Sponsors and management contributed to KAR Auction Services approximately $1.1 billion in equity, consisting of approximately $790.0 million in cash and ADESA stock and approximately $272.4 million of equity interest in IAAI.

KAR Auction Services entered into new senior secured credit facilities, comprised of a $1,565.0 million term loan facility and a $300.0 million revolving credit facility.

KAR Auction Services issued the senior notes and the senior subordinated notes.

The net proceeds from the Equity Sponsors and financings were used to: (a) fund the cash consideration payable to ADESA stockholders, ADESA option holders and ADESA restricted stock and restricted stock unit holders under the merger agreement;

(b) repay the outstanding principal and accrued interest under ADESA s existing credit facility and notes; (c) repay the outstanding principal and accrued interest under IAAI s existing credit facility and notes; (d) pay related transaction fees and expenses; and (e) contribute IAAI s equity at fair value.

The transactions described above are collectively referred to as the 2007 Transactions.

Table of Contents

SUMMARY

This summary highlights information appearing elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making your investment decision. You should read the entire prospectus carefully, including the matters discussed under the caption Risk Factors and in the financial statements and related notes included elsewhere in this prospectus, as well as information incorporated by reference.

Our Company

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 214 physical auction locations and multiple proprietary Internet venues. In 2008, we facilitated the sale of over 3.2 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers as well as by providing value-added ancillary services, including inspections, storage, transportation, reconditioning, salvage recovery, titling, and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and we do not take title or ownership to substantially all vehicles sold at our auctions. We currently have over 150,000 registered buyers at our auctions. For the twelve month period ended September 30, 2009, our revenues totaled $1,708 million, and our Adjusted EBITDA was $383.7 million. For the twelve month period ended September 30, 2009, our net loss was $31.4 million. For a reconciliation from Net income (loss) to Adjusted EBITDA, which is a non-GAAP measure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources EBITDA and Adjusted EBITDA.

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

We have a network of 62 whole car auction locations and 152 salvage auction locations. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. Eleven of our locations are combination sites, which offer both whole car and salvage auction services. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

Our Industry

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

Stable Whole Car Industry Volumes

During the period from 1999 to 2008, approximately 9.2 to 10.0 million used vehicles per year were sold in North America through whole car auctions. The stable number of vehicles sold at auction in North America is primarily dependent upon the total population of cars on the road as opposed to the more volatile annual new vehicle sales. Positive trends which should influence future demand for used vehicles include increases in the number of households with more than one vehicle, improvements by manufacturers that have extended vehicle lifespan and the affordability of used vehicles relative to new vehicles.

Growing Salvage Auction Industry Volumes

During the period of 2004 through 2008, we believe that the North American salvage vehicle auction industry volumes increased at an estimated annual growth rate of 2%. Vehicles deemed a total loss by the insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. This trend, along with increases in miles driven and vehicles per household, has contributed to the growth in salvage vehicle volumes.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA represent approximately 50% and over 21% of the market, respectively, and no other competitor represents more than 3%. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, Copart and IAAI, representing an estimated 37% and 35% of the market, respectively, and no other competitor representing more than 10%.

High Barriers to Entry

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

Our Competitive Strengths

Leading Provider of Both Whole Car and Salvage Vehicle Auctions

We are the second largest provider of both whole car and salvage vehicle auctions and related services in North America, with estimated market shares of over 21% and 35% in the whole car and

Table of Contents

salvage auction markets, respectively. We have 62 whole car and 152 salvage auction locations and are the only company in North America with a top two market share position in both the whole car and salvage auction markets. Our market presence in the 75 largest metropolitan markets in the United States and Canada enables us to attract large whole car and salvage sellers while simultaneously maintaining strong relationships with local franchised and independent automobile dealers. Our auctions attract a high volume of vehicles, thereby ensuring sufficient supply to create the successful marketplaces that buyers and sellers demand. We also have a leading market position in the floorplan financing industry. AFC has 87 branches primarily supporting over 10,000 independent dealers across North America who purchase vehicles primarily from whole car auctions.

Differentiated Internet-Based Auction Services Complement Physical Presence

All of our services are augmented by state-of-the-art information technology solutions enabling our buyers and sellers to maximize exposure and salability of inventory at all points in the remarketing lifecycle. For our whole car customers, we complement the physical auction with LiveBlock (real-time simulcast of the physical auction via the Internet), DealerBlock® (24/7 interactive, virtual auctions) and customized private label solutions that allow our institutional consignors to offer vehicles via the Internet prior to arrival at the physical auction. In addition, our Internet services allow buyers to search inventory, review vehicle condition reports, receive electronic notifications of successful vehicle searches, determine market values and purchase vehicles via the Internet. ADESA owns LAI, which we believe is a leading provider of software that facilitates the simulcast of physical auctions on the Internet in real time allowing buyers to bid from any location. Our handheld condition reporting technology provided through our wholly owned subsidiary, AutoVin, prepares standard vehicle inspection reports, including pictures, for all vehicles sold via the Internet or at physical auction. For our salvage buyers, we complement the physical auctions with i-Bid LIVE℠ (real-time simulcast of the physical auction via the Internet) and a newly designed website that allows buyers to search inventory, review photos, set up alerts and purchase vehicles. In addition, our insurance company suppliers can manage inventory, perform salvage return analyses and electronically assign vehicles to our auctions via the Internet using CSA Today , a proprietary software product developed by IAAI.

Provider of Comprehensive Vehicle Auction Services

We offer a full range of integrated pre- and post-auction services aimed at assisting our customers in the redistribution of their vehicles in an efficient and cost-effective manner. In 2008, we generated a combined total of more than $600 million of revenue from pre- and post-auction services. Pre-auction services include inspections, storage, transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), titling and other administrative services. Post-auction services include the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery, post-sale inspections, reconditioning and customized reporting and analyses. The combination of our physical auction locations, Internet-based solutions and ancillary services offers our customers a single vendor solution to meet all of their vehicle redistribution needs.

Longstanding Customer Relationships and Diversified Customer Base

We have established long-term customer relationships with franchised and independent vehicle dealers and large institutional customers. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 4% of our consolidated revenue in 2008. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with all of the major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North

America, including, but not limited to, AmeriCredit, Capital One Auto Finance, Chase Auto Finance, Chrysler, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, Mercedes-Benz, Santander Consumer, Toyota, VW and Wells Fargo. IAAI enjoys long-term relationships with most of the top automobile insurers, including, but not limited to, Allstate, American Family Insurance, Farmers Insurance, GEICO, Nationwide, Progressive, State Farm and USAA.

Low Capital Intensity Financial Model

Our low maintenance capital expenditures and working capital requirements enable the business to generate strong cash flows. We do not take title to or bear the risk of loss for substantially all vehicles sold at whole car or salvage auctions. Furthermore, customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. These requirements contribute to limited inventory and accounts receivable exposure. Our low capital intensity financial model should allow us to produce significant free cash flow in the future enabling us to continue to reduce debt.

Strong Management Team with Track Record of Driving Growth and Improving Efficiency

Since 2007, our senior management team has implemented a series of successful initiatives resulting in auction services revenue growth and gross profit expansion. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our volumes and revenues at auction. Furthermore, the management team implemented a disciplined expansion strategy, acquiring or building numerous auction locations since the consummation of the 2007 Transactions. We believe our integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and through selective acquisitions. In addition, we have reduced costs through the integration of operating systems and introduction of standard operating practices across all auction sites, resulting in improved operating efficiencies, reduced headcount and improved operating profit at existing and acquired sites.

Our Business Strategy

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

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

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

- **Grow our dealer consignment business.** The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have recently augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team will assist the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share.

Table of Contents

Our sales representatives will also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our auctions.

Grow our non-insurance salvage auction customer base. More than 14 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of that unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers. ADESA s strong customer relationships with rental car, captive finance and fleet companies provide an advantage in accessing these segments as these customers already use ADESA s whole car auction services.

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

Continue to Grow Revenue per Vehicle

From 2004 through 2008, we grew our whole car and salvage revenue per vehicle at compound annual growth rates of 7.1% and 4.7%, respectively. Increased utilization of ancillary services, selective fee increases and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. We plan to further grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions and by expanding other services such as LAI and AutoVIN.

Improve Customer Experience through Internet Initiatives

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

Increase Our International Presence

We believe we are well positioned to grow internationally and are continuing to identify opportunities to expand certain of our service offerings globally. We currently license our LAI online bidding software to auction customers internationally. We plan to further capitalize on the international appeal of our proprietary technologies, such as LAI s bidding software and AutoVIN s inspection

Table of Contents

technology, through licensing and other arrangements with third parties. In both our whole car and salvage vehicle businesses, we have experience managing international relationships with buyers in over 100 countries. We will continue to assess acquisition and greenfield expansion opportunities in selective markets. For example, we have successfully grown our ADESA Mexico City auction and recently opened our Guadalajara auction.

Use Excess Cash Flow to Reduce Debt

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. We generated $224.9 million of cash flow from operations for the year ended December 31, 2008, and have generated $239.1 million of cash flow from operations in the nine months ended September 30, 2009. Management is committed to utilizing a significant portion of excess cash generated by the business for debt reduction for the foreseeable future.

Leverage AFC s Products and Services at ADESA and IAAI

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

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. We successfully implemented IAAI s standard processes and technology systems at 28 of ADESA s legacy salvage auction sites and 14 salvage sites acquired since the 2007 Transactions, streamlining operations and improving operating efficiencies. As a result, IAAI has achieved gross margin expansion of 3.0% over the last two fiscal years. Subsequent to the 2007 Transactions, ADESA implemented Project PRIDE, an initiative to identify best practices at its whole car auction sites, standardize auction operating processes and improve efficiency in the delivery of services. We recently introduced a personnel management system to actively monitor and manage staffing levels in conjunction with Project PRIDE and have begun to realize significant labor efficiency gains. Through Project PRIDE, we expect to achieve gross profit margin expansion at ADESA similar to that realized at IAAI. Additionally, we continue to focus on consolidating selective administrative and overhead functions.

The Equity Sponsors

Kelso & Company

Kelso & Company, one of the oldest and most established firms specializing in private equity investing, has been involved in leveraged acquisitions both as principal and as financial advisor since 1971. Kelso makes equity investments on behalf of investment partnerships, which it manages. Since 1980, Kelso has completed approximately 100 transactions with an aggregate initial capitalization at closing of over $31 billion.

Table of Contents

GS Capital Partners

Founded in 1869, Goldman, Sachs & Co. is one of the oldest and largest investment banking firms. Goldman, Sachs & Co. is also a global leader in private corporate equity and mezzanine and senior debt investing. Established in 1991, the Goldman Sachs Capital Partners family of funds is part of the firm s Principal Investment Area in the Merchant Banking Division. Goldman, Sachs & Co. s Principal Investment Area has formed 15 investment vehicles aggregating $80 billion of capital to date.

ValueAct Capital

ValueAct Capital, with offices in San Francisco and Boston, seeks to make strategic-block value investments in a limited number of companies. ValueAct Capital concentrates primarily on acquiring significant ownership stakes in publicly traded companies, and a select number of control investments, through both open-market purchases and negotiated transactions.

Parthenon Capital

Parthenon Capital is a private equity firm with offices in Boston and San Francisco. The firm provides capital and strategic resources to growing middle market companies for acquisitions, internal growth strategies and shareholder liquidity. The firm invests in a wide variety of industries with particular expertise in business services, financial services and healthcare.

Table of Contents

The Offering

Common stock offered by us	23,000,000 shares
Common stock to be outstanding immediately after this offering	129,853,660 shares
Common stock to be beneficially owned by the Equity Sponsors immediately after this offering	100,991,440 shares. See Principal Stockholders.
Option to purchase additional shares from us	We have granted the underwriters a 30-day option to purchase up to 3,450,000 additional shares of our common stock at the initial public offering price.
Use of proceeds	We intend to use $276.8 million of the net proceeds from this offering to repay and/or repurchase amounts under one or more of our senior subordinated notes, fixed senior notes and floating senior notes, which may include a tender offer for cash or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. We also intend to use $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them. See Use of Proceeds and Unaudited Pro Forma Consolidated Financial Data.
Dividend policy	We do not anticipate paying a dividend on our common stock.
Risk factors	See Risk Factors beginning on page 14 to read about factors you should consider before buying shares of the common stock.
New York Stock Exchange symbol for our common stock	KAR
Conflict of Interest	Affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock. For more information, see Underwriting Conflict of Interest; FINRA Regulations.

Table of Contents

The number of shares of common stock to be outstanding immediately after this offering excludes:

- 6,492,683 shares of common stock reserved for future issuance under our equity incentive plans. See Compensation Discussion and Analysis Equity Incentive Plans.

Except as otherwise indicated, the information in this prospectus:

- assumes no exercise of the underwriters option to purchase additional shares;
- assumes that we will repay or repurchase, excluding accrued and unpaid interest, $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million and $37.4 million aggregate principal amount of senior floating notes for $35.1 million (we may not, however, be able to repay or repurchase the notes on these terms or at all). See Use of Proceeds and Unaudited Pro Forma Consolidated Financial Data; and
- gives effect to a 10-for-1 common stock split that became effective on December 9, 2009.

Information About KAR Auction Services

KAR Auction Services was incorporated in November 2006 and commenced operations in April 2007 upon the acquisition of ADESA and the consummation of transactions that resulted in ADESA and IAAI becoming, directly or indirectly, wholly owned subsidiaries of the Company. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle redistribution industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC, our floorplan financing business. ADESA remained a public company until 1995 when ALLETE purchased a majority of its outstanding equity interests. In June 2004, ALLETE sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders in September 2004. ADESA was acquired by affiliates of the Equity Sponsors in April 2007. IAAI entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAAI was acquired by affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAAI management contributed IAAI to KAR Auction Services in connection with the 2007 Transactions.

Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number is (800) 923-3725. Our website is located at www.karauctionservices.com. The information on, or accessible through, the website is not a part of, or incorporated by reference in, this prospectus.

Table of Contents

Summary Historical and Pro Forma Consolidated Financial Data

The following table sets forth our summary historical consolidated financial data and summary unaudited pro forma consolidated income statement data, at the dates and for the periods indicated. The summary historical consolidated financial data as of and for the years ended December 31, 2007 and 2008 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this prospectus. The summary historical consolidated financial data as of and for the nine months ended September 30, 2008 and 2009 have been derived from our unaudited consolidated financial statements and the related notes included elsewhere in this prospectus. We were incorporated on November 9, 2006; however, we had no operations until the consummation of the 2007 Transactions.

The summary unaudited pro forma consolidated statement of operations data for the year ended December 31, 2007 have been prepared to give effect to the 2007 Transactions as if they had occurred on the first day of the fiscal year 2007. The summary unaudited pro forma consolidated statement of operations data does not purport to represent what our results of operations would have been if the 2007 Transactions had occurred as of the dates indicated, or what such results will be for any future period.

The following selected financial data should be read in conjunction with Selected Historical Consolidated Financial Data, Unaudited Pro Forma Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements of KAR Auction Services and related notes, the audited consolidated financial statements of ADESA and related notes, the audited consolidated financial statements of IAAI and related notes, and other financial information included elsewhere in this prospectus.

(Dollars in millions except per share amounts)	Year Ended December 31, 2007(1)	Pro Forma Year Ended December 31, 2007(2) (unaudited)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Statement of Operations Data:					
Net revenues	$ 1,102.8	$ 1,588.9	$ 1,771.4	$ 1,375.2	$ 1,311.7
Cost of sales (excludes depreciation and amortization)	627.4	891.2	1,053.0	792.9	755.1
Gross profit	475.4	697.7	718.4	582.3	556.6
Operating expense:					
Selling, general and administrative	242.4	348.2	383.7	285.2	274.3
Depreciation and amortization	126.6	176.1	182.8	137.3	129.9
Goodwill and other intangibles impairment			164.4	164.4	
Operating income (loss)	106.4	173.4	(12.5)	(4.6)	152.4
Other (income) expense:					
Interest expense	162.3	226.3	215.2	161.5	132.8
Other expense (income), net	(7.6)	(9.7)	19.9	4.9	(9.3)
Income (loss) before income taxes	(48.3)	(43.2)	(247.6)	(171.0)	28.9
Income taxes	(10.0)	(17.4)	(31.4)	(4.1)	11.0
Net (loss) income from continuing operations	$ (38.3)	$ (25.8)	$ (216.2)	$ (166.9)	$ 17.9
Net earnings (loss) per share basic and diluted	$ (0.36)	$ (0.24)	$ (2.02)	$ (1.56)	$ 0.17
Weighted average shares outstanding					
Basic	106.7	106.7	106.9	106.9	106.9
Diluted	106.7	106.7	106.9	106.9	106.9

Table of Contents

	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Other Financial Data:				
EBITDA(6)	$ 327.3	$ 148.6	$ 126.2	$ 291.3
Adjusted EBITDA per the Credit Agreement(6)	405.2	396.0	338.5	326.2
Cash flow from operations	96.8	224.9	207.5	239.1
Capital expenditures	62.7	129.6	85.7	40.8
Balance Sheet Data (at end of period):				
Available cash and cash equivalents(3)	$ 99.3	$ 91.2	$ 97.8	$ 299.6
Working capital(4)	442.1	304.3	366.3	447.3
Total assets	4,530.8	4,157.6	4,345.0	4,334.5
Total debt	2,616.7	2,527.4	2,561.0	2,522.9
Total net debt(5)	2,517.4	2,436.2	2,463.2	2,223.3
Total stockholders equity	1,013.6	750.7	833.4	801.0

(1) We were incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007.

(2) The amounts for pro forma year ended December 31, 2007 are based on the historical financial data of ADESA for the period from January 1, 2007 to April 19, 2007, the historical financial data of IAAI for the period from January 1, 2007 to April 19, 2007 and the historical financial data of KAR Auction Services for the period from January 1, 2007 to December 31, 2007, as adjusted to combine the financial statements of ADESA and IAAI on a historical basis and to illustrate the pro forma effects of the 2007 Transactions as if they had occurred on January 1, 2006. KAR Auction Services was incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2008 for a further discussion and the presentation of these pro forma financial statements.

(3) Available cash and cash equivalents excludes cash in transit.

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

(5) Represents total debt less available cash and cash equivalents.

(6) EBITDA and Adjusted EBITDA per the Credit Agreement, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with generally accepted accounting principles, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to revenues, net income (loss) or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as measures of our liquidity.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is calculated by adjusting EBITDA for the items of income and expense and expected incremental revenues and cost savings as follows (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 expense; (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.

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 internal measures of performance used by them. Management uses the Adjusted EBITDA measure to evaluate our performance and to evaluate results relative to incentive compensation targets. Adjusted EBITDA per the Credit Agreement adds the pro forma impact of recent acquisitions and the pro forma cost savings per the credit agreement to Adjusted EBITDA. Adjusted EBITDA per the Credit Agreement is used by our creditors in assessing debt covenant compliance and management believes its inclusion is appropriate to provide additional information to investors about certain covenants required pursuant to our senior secured credit facility and the notes. EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement measures 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.

Table of Contents

Under the Credit Agreement, we are required to maintain a maximum Consolidated Senior Secured Leverage Ratio which is based on Adjusted EBITDA per the Credit Agreement. Failure to comply with the ratio covenant would result in a default under the Credit Agreement, and, absent a waiver or an amendment from the lenders, permit the acceleration of all outstanding borrowings under the credit facility. An acceleration of $50 million or more under the Credit Agreement would result in a default pursuant to the indentures governing the notes and therefore, allow the holders of the notes to accelerate the outstanding principal amount of the notes.

EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement are reconciled to net income (loss) as follows (unaudited):

(Dollars in millions)	Year Ended December 31, 2007(a)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Net (loss) income	$ (38.3)	$ (216.2)	$ (166.9)	$ 17.9
Add back:				
ADESA 2007 net income	26.9			
ADESA 2007 discontinued operations	0.1			
IAAI 2007 net loss	(0.4)			
	(11.7)	(216.2)	(166.9)	17.9
Add back:				
Income taxes	(10.0)	(31.4)	(4.1)	11.0
ADESA 2007 income taxes	24.9			
IAAI 2007 income taxes	1.5			
Interest expense, net of interest income	156.0	213.4	159.9	132.5
ADESA 2007 interest expense, net of interest income	6.3			
IAAI 2007 interest expense, net of interest income	9.9			
Depreciation and amortization	126.6	182.8	137.3	129.9
ADESA 2007 depreciation and amortization	15.9			
IAAI 2007 depreciation and amortization	7.9			
EBITDA	327.3	148.6	126.2	291.3
Nonrecurring charges	24.2	40.8	28.8	15.3
Nonrecurring transaction charges	24.8			
Noncash charges	16.6	200.4	178.3	16.8
Advisory services	2.6	3.7	2.7	2.8
Adjusted EBITDA	$ 395.5	$ 393.5	$ 336.0	$ 326.2
Pro forma impact of recent acquisitions	4.7	2.5	2.5	
Pro forma cost savings per the Credit Agreement	5.0			
Adjusted EBITDA per the Credit Agreement	$ 405.2	$ 396.0	$ 338.5	$ 326.2

(a) Our EBITDA measures (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

they do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

they do not reflect changes in, or cash requirements for, our working capital needs;

they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

they do not reflect any cash income taxes that we may be required to pay;

assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements;

they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

Table of Contents

- they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;

- they do not reflect limitations on, or costs related to, transferring earnings from our subsidiaries to us; and

- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, our EBITDA measures (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using these measures supplementally. See Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes included elsewhere in this prospectus.

RISK FACTORS

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

Risks Related to Our Business

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

The recent prolonged economic downturn or future adverse economic conditions could increase our exposure to several risks, including:

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

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

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

- *Volatility in the asset-backed securities market*. The volatility and disruption in the asset-backed commercial paper market and increased loan losses as used vehicle dealers have experienced steep declines in sales in previous quarters have led to reduced revenues and the narrowing of interest rate spreads at AFC in certain periods. In addition, the volatility and disruption have affected, and may continue to affect, AFC s cost of financing related to its securitization conduit.

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

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

Table of Contents

The U.S. Government, Federal Reserve and other governmental and regulatory bodies have taken certain actions to address the recent disruptions in the financial markets. There can be no assurance as to the effect that any such governmental actions will have on the financial markets generally or on our business, results of operations and financial condition.

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

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

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

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

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

We are dependent upon receiving a sufficient number of total loss vehicles as well as recovered theft vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, delays or changes in state title processing, and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles, which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of key insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. In addition, in the last few years there has been a declining trend in theft occurrences which reduces the number of stolen vehicles recovered by insurance companies for which a claim settlement has been made. If the supply of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected.

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

As of September 30, 2009, our total debt was approximately $2.5 billion and we had $300.0 million of borrowing capacity under our senior secured credit facilities ($250.0 million after consummation of this offering).

Our substantial indebtedness could have important consequences including:

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

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

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

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

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

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

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

- the lenders under our senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and we could be forced into bankruptcy or liquidation.

Table of Contents

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

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

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans, investments and capital expenditures;
- incur liens;
- pay dividends or make other payments by our restricted subsidiaries;
- enter into certain transactions with affiliates;
- sell assets and capital stock of our subsidiaries; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

For a description of our senior secured credit facilities, see Description of Certain Indebtedness Senior Secured Credit Facilities. For a description of our senior notes and senior subordinated notes, see Description of Certain Indebtedness Senior Notes and Description of Certain Indebtedness Senior Subordinated Notes.

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

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles and for the floorplan financing of these vehicles. Current or potential competition comes from four primary sources: (i) direct competitors, (ii) potential entrants, (iii) potential new vehicle remarketing venues and dealer financing services and (iv) existing alternative vehicle remarketing venues. In both the vehicle auction and dealer financing businesses, we and our competitors are working to develop new services and technologies, or improvements and modifications to existing services and technologies. Some of these competitors may have greater financial and marketing resources than we do, and may be able to respond more quickly to new or emerging services and technologies, evolving industry trends and changes in customer requirements, and devote greater resources to the development, promotion and sale of their services. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business and results of operations.

There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us would not have a material adverse effect on our business and results of operations. If we are not able to compete successfully, our ability to grow and achieve or sustain profitability could be impaired. Our agreements with our largest institutional suppliers are generally subject to cancellation by either party upon 30 to 90 days notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these or other suppliers on similar terms, or at all.

Table of Contents

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

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

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

We are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to growing market share and volume, increasing revenue per vehicle and improving customer experiences through Internet initiatives, using excess cash flow to reduce debt, leveraging AFC s products and services at ADESA and IAAI and continuing to improve operating efficiency. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash flows from operations (we generated $239.1 million and $224.9 million of cash flow from operations for the nine months ended September 30, 2009 and the year ended December 31, 2008, respectively), we may be unable to reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

Our business is dependent on information and technology systems. Failure to effectively maintain or update these systems could result in us losing customers and materially adversely affect our operating results and financial condition.

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

Our information and technology systems may be subject to viruses, network failures and infiltration by unauthorized persons. If these systems were compromised or not operable for extended periods of time, our ability to provide many of our electronic and online solutions to our customers may be impaired. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

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

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

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

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

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. For the year ended December 31, 2008, approximately 17% of our revenues were attributable to our Canadian operations. A decrease in the value of the Canadian currency relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars.

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

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

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

Capacity reductions and uncertain conditions at the major original equipment manufacturers could negatively impact auction volumes.

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

Table of Contents

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

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

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

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

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

The used vehicle redistribution industry is considered a mature industry in which low single-digit growth is expected in industry unit sales. Acquisitions have been a significant part of our historical growth and have enabled us to further broaden and diversify our service offerings. Our strategy generally involves the acquisition and integration of additional physical auction sites, technologies and personnel. Acquisition of businesses requires substantial time and attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Failure to do so could materially adversely affect our business, financial condition and results of operations. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

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

- incurring significantly higher capital expenditures and operating expenses;
- entering new markets with which we are unfamiliar;
- incurring potential undiscovered liabilities at acquired auctions;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees and customers as a result of management changes; and
- increasing expenses for accounting and computer systems, as well as integration difficulties.

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

21

Table of Contents

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

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

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

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

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

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

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

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

In light of the overall economy and in particular the automotive finance industries which continue to face severe pressures, AFC and its customer dealer base have been negatively impacted. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC has tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC for 2008 compared to 2007. Based on that trend, the forecasted performance was revised. As a result, in the third quarter of 2008, a noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit.

We still have approximately $1.5 billion of goodwill on our consolidated balance sheet that could be subject to impairment. In addition, if we acquire new businesses in the future, we may recognize additional goodwill, which could be significant. We could also be required to recognize additional impairments in the future and such an impairment charge could have a material adverse effect on the financial position and results of operations in the period of recognition.

We are partially self-insured for certain losses.

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

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

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

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

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

Table of Contents

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

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

Proposed future U.S. federal income tax legislation could impact our effective tax rate.

In May 2009, President Obama s administration announced proposed future tax legislation that could substantially modify the rules governing the U.S. taxation of certain non-U.S. subsidiaries. These potential changes include, but are not limited to: (1) limitations on the deferral of U.S. taxation of foreign earnings; (2) limitations on the ability to claim and utilize foreign tax credits; and (3) deferral of various tax deductions until non-U.S. earnings are repatriated to the U.S. Each of these proposals would be effective for taxable years beginning after December 31, 2010. Many details of the proposal remain unknown, although if any of these proposals are enacted into law they could impact the Company s effective tax rate.

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

ADESA and ALLETE entered into a tax sharing agreement in 2004, which governs ALLETE s and ADESA s respective rights, responsibilities and obligations after the spin-off with respect to taxes for the periods ending on or before the spin-off. Under the tax sharing agreement, if the spin-off becomes taxable to ALLETE, ADESA may be required to indemnify ALLETE for any taxes which arise as a result of ADESA s actions or inaction. In addition, ADESA has agreed to indemnify ALLETE for 50% of any taxes related to the spin-off that do not arise as a result of actions or inaction of either ADESA or ALLETE.

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

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

Table of Contents

Risks Related to this Offering and Ownership of Our Common Stock

There is no public market for our common stock and a market may never develop, which could cause our common stock to trade at a discount and make it difficult for holders of our common stock to sell their shares.

Our common stock has been approved for listing on the New York Stock Exchange, or the NYSE, under the symbol KAR, subject to official notice of issuance. However, we cannot assure you that a regular trading market of our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. Accordingly, we cannot assure you of the likelihood that an active trading market for our common stock will develop or be maintained, the liquidity of any trading market, your ability to sell your common stock when desired, or at all, or the prices that you may obtain for your common stock.

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

Before this offering, there has been no public market for our common stock. An active public market for our common stock may not develop or be sustained after this offering. The price of our common stock in any such market may be higher or lower than the price you pay. If you purchase shares of common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay the price that we negotiated with the representatives of the underwriters.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuations in the market value of your investment. Many factors could cause the market price of our common stock to rise and fall, including the following:

- our announcements or our competitors announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- changes in earnings estimates or recommendations by securities analysts, if any, who cover our common stock;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in our capital structure, such as future issuances of securities, sales of large blocks of common stock by our stockholders or our incurrence of additional debt;
- investors general perception of us and our industry;
- changes in general economic and market conditions in North America;
- changes in industry conditions; and
- changes in regulatory and other dynamics.

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

Table of Contents

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

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

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

After this offering, there will be 129,853,660 shares of common stock outstanding. There will be 133,303,660 shares issued and outstanding if the underwriters exercise in full their option to purchase additional shares. Of our issued and outstanding shares, all the common stock sold in this offering will be freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Following completion of the offering, approximately 82% of our outstanding common stock (or 80% if the underwriters exercise in full their option to purchase additional shares from us) will be held by affiliates of the Equity Sponsors and other equity co-investors (indirectly through their investment in KAR LLC) and members of our management and employees.

We, our officers, directors and substantially all of our stockholders, including KAR LLC and the Equity Sponsors, have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through 180 days after the date of this prospectus except with the prior written consent of Goldman, Sachs & Co. See Shares Eligible for Future Sale Lock-Up Agreements included elsewhere in this prospectus.

In addition, pursuant to a registration rights agreement entered into in connection with the 2007 Transactions, we have granted KAR LLC the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act covering resales of all shares of our common stock held by KAR LLC. These shares will represent approximately 82% of our outstanding common stock after this offering (or 80% if the underwriters exercise in full their option to purchase additional shares from us). These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on the holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or if KAR LLC exercises its registration rights, the market price of our stock could decline if KAR LLC sells the restricted shares or is perceived by the market as intending to sell them. See Certain Relationships and Related Party Transactions Relationships with the Equity Sponsors Registration Rights Agreement and Shares Eligible for Future Sale.

Immediately following this offering, we also intend to file a registration statement registering under the Securities Act the shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital. See Shares Eligible for Future Sale for a more detailed description of the shares of our common stock that will be available for future sales upon completion of this offering.

Table of Contents

You will incur immediate dilution as a result of this offering.

The initial public offering price of our common stock is higher than the net tangible book deficit per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $27.08 ($26.40 if the underwriters exercise in full their option to purchase additional shares) in net tangible book deficit per share based on an assumed initial public offering price of $16.00 per share, the midpoint of the range set forth on the front cover of this prospectus. Further dilution will result if rights to purchase our common stock that we have issued or may issue in the future are exercised, or if we issue additional shares of our common stock, at prices lower than our net tangible book deficit at such time. For additional information regarding the dilution effects of this offering, see Dilution.

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

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

These provisions include:

- limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;
- rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;
- permitting our board of directors to issue preferred stock without stockholder approval;
- granting to the board of directors, and not the stockholders, the sole power to set the number of directors; and
- authorizing vacancies on our board of directors to be filled only by a vote of the majority of the directors then in office and specifically denying our stockholders the right to fill vacancies in the board.

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

- authorizing the removal of directors only for cause and only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and
- prohibiting stockholder action by written consent.

These provisions apply even if an offer may be considered beneficial by some stockholders.

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

Currently, we are indirectly controlled, and upon consummation of this offering, will continue to be indirectly controlled, by affiliates of the Equity Sponsors. Affiliates of the Equity Sponsors will indirectly own through their investment in KAR LLC approximately 78% of our common stock (or 76% if the

Table of Contents

underwriters exercise in full their option to purchase additional shares) after the completion of this offering. As a result, affiliates of the Equity Sponsors will have control over our decisions to enter into any corporate transaction and the ability to prevent any transaction that requires shareholder approval regardless of whether others believe that the transaction is in our best interests. So long as the Equity Sponsors continue to indirectly hold a majority of our outstanding common stock, they will have the ability to control the vote in any election of directors.

In connection with this offering, we will enter into a director designation agreement that will provide for the rights of KAR LLC directly, and the Equity Sponsors indirectly, to nominate designees to our board of directors. See Certain Relationships and Related Party Transactions Director Designation Agreement.

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

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

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

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

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

Table of Contents

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

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

- the requirement that a majority of the Board of Directors consist of independent directors;
- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors, our nominating/corporate governance committee and compensation committee will not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of federal securities laws and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus 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, 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:

- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- the introduction of new competitors;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;
- changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;
- competitive pricing pressures;
- 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;

weather;

general business conditions;

our substantial amount of debt;

Table of Contents

- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- any impairment to our goodwill;
- our self-insurance for certain risks;
- any losses of key personnel;
- interruptions to service from our workforce;
- changes to accounting standards;
- proposed tax legislation;
- our tax indemnification of ALLETE; and
- other risks described in Risk Factors.

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

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

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be $340.9 million, at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) and after deducting the underwriting discount and estimated offering expenses payable by us. Our net proceeds will increase by approximately $51.9 million if the underwriters exercise in full the option to purchase additional shares. Each $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) would increase (decrease) the net proceeds to us of this offering by approximately $21.6 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

We intend to use $276.8 million of the net proceeds from this offering to repay and/or repurchase amounts under one or more of our senior subordinated notes, fixed senior notes and floating senior notes, which may include a tender offer for cash or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. We also intend to use $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, which matures on October 19, 2013, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them. See Certain Relationships and Related Party Transactions Financial Advisory Agreements. If the underwriters exercise their option to purchase additional shares, we intend to use the additional net proceeds for general corporate purposes, which may include additional repayments and repurchases of indebtedness. The weighted average interest rates of our senior secured term loan and our floating senior notes was 6.84% and 7.29%, respectively, for the year ended December 31, 2008, and 4.49% and 5.24%, respectively, for the period ended September 30, 2009. The interest rates of our fixed senior notes and senior subordinated notes are 8¾% and 10%, respectively.

On November 30, 2009, we commenced a tender offer to purchase for cash a portion of our senior subordinated notes, fixed senior notes and floating senior notes. We are offering to purchase an aggregate principal amount of these notes such that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million; provided, however, that under certain circumstances, such maximum aggregate consideration, excluding accrued and unpaid interest, may be $113.2 million (the alternative maximum aggregate consideration).

The tender offer is subject to the condition that our senior subordinated notes with an aggregate principal amount equal to at least $191.2 million are validly tendered as of the early tender date for the tender offer (the minimum condition), which is December 11, 2009. The tender offer is also conditioned upon the consummation of this offering and specified general conditions. If any condition of the tender offer is not satisfied, we will not be obligated to accept for purchase, or to pay for, any notes tendered and may delay the acceptance for payment of any tendered notes, in each case subject to applicable laws.

If the minimum condition is satisfied as of the early tender date, we intend to accept for purchase notes tendered in the tender offer based on the following priority: (1) first, the maximum aggregate principal amount of our senior subordinated notes validly tendered on a pro rata basis that can be purchased such that the maximum aggregate consideration for senior subordinated notes, excluding accrued and unpaid interest, will be $276.8 million, (2) second, the maximum aggregate principal amount of fixed senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the aggregate consideration paid for all senior subordinated notes and fixed senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million and (3) thereafter, the maximum aggregate principal amount of floating senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the aggregate consideration paid for all senior subordinated notes, fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million.

If the minimum condition is not satisfied as of the early tender date, we may choose in our sole discretion to waive such condition so that we will proceed with the tender offer in the same manner as if the minimum condition had been satisfied except that, even though all validly tendered senior subordinated notes would be purchased, less than $191.2 million aggregate principal amount of senior subordinated notes would be purchased. Alternatively, if the minimum condition is not satisfied as of the early tender date, we may choose in our sole discretion to waive the minimum condition so that we will not purchase any senior subordinated notes in the tender offer and the maximum aggregate consideration for fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $113.2 million. We then would accept for purchase (1) first, the maximum aggregate principal amount of fixed senior notes validly tendered on a pro rata basis that can be purchased such that the maximum aggregate consideration for fixed senior notes, excluding accrued and unpaid interest, will be $113.2 million and (2) thereafter, the maximum aggregate principal amount of floating senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the maximum aggregate consideration for fixed senior notes and floating senior notes, excluding accrued and unpaid interest, will be $113.2 million.

Holders of senior subordinated notes, fixed senior notes and floating senior notes will receive $1,080, $1,060 and $940, respectively, plus accrued and unpaid interest, for each $1,000 principal amount of notes that are validly tendered on or before December 11, 2009 and accepted for purchase in the tender offer. Holders of senior subordinated notes, fixed senior notes and floating senior notes will receive $1,040, $1,020 and $900, respectively, plus accrued and unpaid interest, for each $1,000 principal amount of such notes that are validly tendered after December 11, 2009 but on or before December 28, 2009 and accepted for purchase in the tender offer.

As of November 30, 2009, the outstanding aggregate principal amount of the senior subordinated notes, fixed senior notes and floating senior notes was $425.0 million, $450.0 million and $150.0 million, respectively. Unless we specifically state otherwise, the information in this prospectus assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million. We may not, however, be able to consummate the tender offer on the terms described above or at all. We may modify the terms of the tender offer, including pricing terms or the maximum consideration to be paid for notes that are validly tendered, or we may extend or terminate the tender offer, at any time prior to its consummation, which may result in our spending more or less than $276.8 million in connection with the tender offer. If we apply less than $276.8 million of net proceeds from this offering to repurchase notes in the tender offer, we intend to use any remaining amounts of those net proceeds for the other purposes described above in lieu of using cash on hand or for general corporate purposes, which may include the repayment or redemption of our indebtedness, including the repayment of additional indebtedness under our senior secured term loan or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. These optional redemption provisions include, without limitation, provisions that permit us, on or before May 1, 2010, at our option, to redeem up to 35% of each tranche of notes with the proceeds of certain sales of our equity (which would include the sale of shares in this offering) at the applicable redemption price listed under Description of Certain

Table of Contents

Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption or that permit us, on or before May 1, 2010 for the fixed senior notes or May 1, 2011 for the senior subordinated notes, at our option, to redeem the fixed senior notes or senior subordinated notes at a price equal to 100% of the principal amount plus the applicable premium (as defined in the applicable indenture).

To the extent we receive less than the estimated $340.9 million of net proceeds from the sale of our common stock in this offering (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus), we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. Any reduction in net proceeds therefore would reduce the maximum aggregate consideration and the alternative maximum aggregate consideration for notes purchased in the tender offer by an amount corresponding to the reduction in net proceeds. See footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet, in each case under Unaudited Pro Forma Consolidated Financial Data. Under the terms of the second amendment to the credit agreement, we cannot consummate this offering if our gross proceeds are less than $300.0 million (which, after deducting the underwriting discount and estimated offering expenses payable by us, would result in net proceeds to us of $277.0 million).

J.P. Morgan Securities Inc. acts as administrative agent and Goldman, Sachs & Co. as documentation agent and affiliates of certain of the underwriters are lenders with respect to our senior secured credit facilities and will receive a portion of the net proceeds of this offering to the extent that we repay a part of the borrowings outstanding under our senior secured term loan using net proceeds from this offering. Goldman, Sachs & Co. and RBC Capital Markets Corporation are acting as dealer-managers in the tender offer and will receive customary fees for their services in such capacity. J.P. Morgan Securities Inc. and Goldman, Sachs & Co. or their respective affiliates are holders of a portion of our notes and may receive a portion of the net proceeds of this offering to the extent they validly tender such notes, and such notes are accepted for purchase, in the tender offer.

This prospectus is not an offer to purchase the senior subordinated notes, fixed senior notes or floating senior notes. Our tender offer is made only by and pursuant to the terms of the Offer to Purchase and the related Letter of Transmittal, each dated as of November 30, 2009.

Table of Contents

DIVIDEND POLICY

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

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2009:

on an actual basis; and

on an as adjusted basis to give effect to (i) the sale of shares of common stock by us in this offering (assuming no exercise of the underwriters option to purchase additional shares from us) at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus), and (ii) the application of the net proceeds of this offering as described under Use of Proceeds.

You should read the data set forth in the table below in conjunction with the Unaudited Pro Forma Consolidated Financial Data, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

	As of September 30, 2009	
	Actual	As Adjusted
	(in millions)	
Debt:		
Revolving credit facility(1)	$	$
Term Loan B	1,497.9	1,247.9
Floating Rate Senior Notes	150.0	112.6
8 3/4% Senior Notes	450.0	416.9
10% Senior Subordinated Notes	425.0	233.8
Total debt(2)	2,522.9	2,011.2
Shareholders equity:		
Common stock, par value $0.01 per share, 400,000,000 shares authorized, 106,853,660 shares issued and outstanding, actual, and 129,853,660 shares issued and outstanding, as adjusted(3)	1.1	1.3
Preferred stock, par value $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital(4)	1,025.7	1,366.4
Retained deficit(5)	(239.8)	(259.8)
Accumulated other comprehensive loss	14.0	14.0
Total shareholders equity(6)	801.0	1,121.9
Total capitalization(6)	$ 3,323.9	$ 3,133.1

(1) Provides for up to $300.0 million of borrowings. In connection with this offering, commitments under this facility will be reduced by $50.0 million to $250.0 million. See Description of Certain Indebtedness Senior Secured Credit Facilities.

(2) As adjusted represents the estimated amounts to be outstanding after the net proceeds of this offering and $200.0 million of available cash are utilized to repay debt and pay $3.6 million of amendment fees, and assumes that we will repay or repurchase $250.0 million aggregate principal amount of Term Loan B debt for $250.0 million, $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of fixed senior notes for $35.1 million and $37.4 million aggregate principal amount of floating senior notes for $35.1 million. See Use of Proceeds.

(3) Reflects the 23,000,000 increase in shares issued in connection with this offering.

(4)

Reflects the proceeds from this offering, net of $27.1 million of underwriting commissions, legal, accounting, printing, filing, registration and transfer agent fees and expenses incurred in connection with the issuance and distribution of our common stock. Almost all of the proceeds will be recorded in additional paid-in capital as the par value of the common stock is $0.01 per share.

(5) As adjusted reflects $15.1 million of net premiums payable related to the repurchase of notes, the expensing of previously recorded debt issue costs of $7.3 million related to the repurchase of notes and termination fees of $10.5 million in connection with the termination of our financial advisory agreements with our Equity Sponsors, offset by the estimated tax effect of these expenses.

(6) A $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share would increase (decrease) each of the total shareholders equity and total capitalization by $21.6 million assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. To the extent we receive less than the estimated $340.9 million of net proceeds from the sale of our common stock in this offering (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus), we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. See footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet, in each case under Unaudited Pro Forma Consolidated Financial Data.

Table of Contents

DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent of the difference between the initial public offering price in this offering per share of our common stock and the pro forma as adjusted net tangible book deficit per share of our common stock upon consummation of this offering. Net tangible book deficit per share represents the book value of our total tangible assets less the book value of our total liabilities divided by the number of shares of common stock then issued and outstanding.

Our net tangible book deficit as of September 30, 2009, was approximately $1,759.7 million, or approximately $16.47 per share based on the 106,853,660 shares of common stock issued and outstanding as of such date. After giving effect to our sale of common stock in this offering at the initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover page of this prospectus), and after deducting estimated underwriting discounts and estimated expenses related to this offering, our pro forma as adjusted net tangible book deficit as of September 30, 2009 would have been $1,438.8 million, or $11.08 per share (assuming no exercise of the underwriters option to purchase additional shares). This represents an immediate and substantial dilution of $27.08 per share to new investors purchasing common stock in this offering. The following table illustrates this dilution per share:

Assumed initial public offering price per share		$ 16.00
Net tangible book value (deficit) per share as of September 30, 2009	(16.47)	
Increase in net tangible book value (deficit) per share attributable to this offering	5.39	
Pro forma as adjusted net tangible book value (deficit) per share after giving effect to this offering		(11.08)
Dilution per share to new investors in this offering		$ (27.08)

A $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover page of this prospectus) would decrease (increase) our net tangible book deficit by $21.6 million, the pro forma net tangible book deficit per share after this offering by $0.17 per share and the increase in net tangible book deficit to new investors in this offering by $0.83 per share, assuming the number of shares of common stock offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise in full their option to purchase additional shares in this offering, our pro forma as adjusted net tangible book deficit as of September 30, 2009 would have been $1,386.9 million, or $10.40 per share, representing an immediate decrease in our pro forma as adjusted net tangible book deficit to our existing stockholders of $6.06 per share and an immediate dilution to investors participating in this offering of $26.40 per share.

Table of Contents

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial data for the year ended December 31, 2008 and as of and for the nine months ended September 30, 2009 are based on our audited and unaudited financial statements included elsewhere in this prospectus. We expect that future results of operations will be different from historical operating results. The tables below present certain pro forma data that adjust the historical data to give effect to:

(i) the sale of shares of common stock by us in this offering (assuming no exercise of the underwriters option to purchase additional shares) at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus);

(ii) the use of net proceeds from this offering to repurchase notes in a tender offer which assumes that the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, is $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million; and

(iii) the use of $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them.

The unaudited pro forma consolidated statements of operations are presented as if the above-described transactions had occurred on January 1, 2008. The unaudited pro forma consolidated balance sheet is presented as if the above-described transactions had occurred as of September 30, 2009.

Each $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) would increase (decrease) the net proceeds to us of this offering by approximately $21.6 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

The unaudited pro forma consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Selected Historical Consolidated Financial Data, the consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma consolidated financial statements are presented for informational purposes only, do not purport to represent what results of operations would have been had the changes actually occurred on the dates indicated and they do not purport to project results of operations for any future period. All pro forma adjustments and their underlying assumptions are described more fully in the notes to the unaudited pro forma consolidated financial statements.

If the minimum condition in the tender offer is not satisfied as of the early tender date, we may choose in our sole discretion (i) to waive the minimum condition and proceed with the tender offer in which the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, will remain $276.8 million, (ii) to waive the minimum condition and

Table of Contents

proceed with the tender offer in which the maximum aggregate consideration for fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $113.2 million and separately redeem senior subordinated notes or (iii) to terminate the tender offer and separately redeem notes, in each case as described under Use of Proceeds. The unaudited pro forma consolidated financial statements do not purport to represent the full range of possible actions by us. Assuming that we receive net proceeds from the sale of common stock in this offering of $340.9 million (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus) and that we apply a total of $276.8 million of net proceeds from this offering to repurchase and/or redeem notes, we expect any of the foregoing alternatives will not result in significantly different results from the data presented in the unaudited pro forma consolidated financial statements.

We estimate that the net proceeds to us from the sale of our common stock in this offering will be $340.9 million, at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) and after deducting the underwriting discount and estimated offering expenses payable by us. To the extent we receive less than $340.9 million of net proceeds, we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. Any reduction in net proceeds therefore would affect several numbers presented in the tables below. For a summary of these changes, see footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet. Under the terms of the second amendment to the credit agreement, we cannot consummate this offering if our gross proceeds are less than $300.0 million (which, after deducting the underwriting discount and estimated offering expenses payable by us, would result in net proceeds to us of $277.0 million).

Table of Contents

Unaudited Pro Forma Consolidated Statements of Operations

For the Year Ended December 31, 2008 and the Nine Months Ended September 30, 2009

	Year Ended December 31, 2008			Nine Months Ended September 30, 2009		
(*Dollars in millions, except per share amounts*)	**Actual**	**Pro Forma Adjustments(f) (unaudited)**	**Pro Forma (unaudited)**	**Actual (unaudited)**	**Pro Forma Adjustments(f) (unaudited)**	**Pro Forma (unaudited)**
Statement of Operations Data:						
Net revenues	$ 1,771.4	$	$ 1,771.4	$ 1,311.7	$	$ 1,311.7
Cost of goods sold	1,053.0		1,053.0	755.1		755.1
Gross profit	718.4		718.4	556.6		556.6
Selling, general & administrative	383.7	(3.5)(a)	380.2	274.3	(2.6)(b)	271.7
Depreciation & amortization	182.8		182.8	129.9		129.9
Goodwill & other intangibles impairment	164.4		164.4			
Operating (loss) income	(12.5)	3.5	(9.0)	152.4	2.6	155.0
Interest expense	215.2	(33.2)(c)	182.0	132.8	(18.6)(c)	114.2
Other expense (income)	19.9	(d)	19.9	(9.3)	(d)	(9.3)
(Loss) income before income taxes	(247.6)	36.7	(210.9)	28.9	21.2	50.1
Income taxes	(31.4)	14.3(e)	(17.1)	11.0	8.3(e)	19.3
Net (loss) income	$ (216.2)	$ 22.4	$ (193.8)	$ 17.9	$ 12.9	$ 30.8
Net (loss) earnings per share basic and diluted	$ (2.02)		$ (1.49)	$ 0.17		$ 0.24

(a) Represents the $3.5 million annual advisory fee actually paid to the Equity Sponsors during the year ended December 31, 2008. The financial advisory agreements will be terminated in connection with this offering. We intend to use any remaining net proceeds from this offering after repurchase or repayment of a portion of our indebtedness, together with cash on hand, to pay termination fees of $10.5 million. See Use of Proceeds. Upon consummation of this offering and payment of these termination fees, our obligation to pay the aggregate financial advisory fee of $3.5 million per annum to the Equity Sponsors will cease. The non-recurring termination fees of $10.5 million are not reflected in the unaudited pro forma consolidated statements of operations.

(b) Represents prorated portion of previously described aggregate financial advisory fee of $3.5 million per annum payable quarterly in advance to the Equity Sponsors.

(c) Represents a reduction in interest expense to give effect to an assumed repurchase or repayment of $511.7 million of debt on January 1, 2008, the 0.50% increase in the interest rate on Term Loan B, the write-off of previously recorded debt issue costs of $7.3 million related to the repurchase of notes and the additional $3.6 million for amendment fees related to the Term Loan B debt. Assumes repayment of $250.0 million of Term Loan B, repurchase or repayment of $37.4 million aggregate principal amount of Floating Rate Senior Notes due May 1, 2014, repurchase or repayment of $33.1 million aggregate principal amount of 8¾% Senior Notes due May 1, 2014 and repurchase or repayment of $191.2 million aggregate principal amount of 10% Senior Subordinated Notes due May 1, 2015.

(d) The non-recurring $15.1 million of net premiums payable related to the repurchase of notes and the expensing of previously recorded debt issue costs of $7.3 million related to the repurchase of notes are not reflected in the unaudited pro forma consolidated statements of operations.

(e) Represents the estimated tax effect of the pro forma adjustments at an estimated tax rate of 39.0%.

(f) This table presents certain pro forma data that adjust the historical data to give effect to, among other things, the use of an assumed $340.9 million of net proceeds from this offering to

Table of Contents

repurchase notes in a tender offer in which the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, will be $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million.

For each $20.0 million reduction in net proceeds we receive in this offering, we intend to reduce the maximum aggregate consideration for all notes purchased in the tender offer by $20.0 million. In that case, for each $20.0 million reduction in net proceeds: pro forma interest expense for the year ended December 31, 2008 and for the nine months ended September 30, 2009 would increase by approximately $1.7 million and approximately $1.1 million, respectively; pro forma loss before income taxes for the year ended December 31, 2008 would increase by approximately $1.7 million and pro forma income before income taxes for the nine months ended September 30, 2009 would decrease by approximately $1.1 million; pro forma income tax benefit for the year ended December 31, 2008 would increase by approximately $0.7 million and pro forma income tax expense for the nine months ended September 30, 2009 would decrease by approximately $0.4 million; pro forma net loss for the year ended December 31, 2008 would increase by approximately $1.0 million and pro forma net income for the nine months ended September 30, 2009 would decrease by approximately $0.7 million; and pro forma net loss per share basic and diluted for the year ended December 31, 2008 would increase by approximately $0.01 and pro forma net earnings per share basic and diluted for the nine months ended September 30, 2009 would decrease by approximately $0.01.

The calculations in the preceding paragraph assume that if we receive $20.0 million less in net proceeds, the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be reduced by $20.0 million, the principal amount of and aggregate consideration for senior subordinated notes we purchase in the tender offer would remain the same, and the aggregate consideration for senior fixed notes and senior floating notes we purchase in the tender offer would each be reduced by $10.0 million. For example, if we received $20.0 million less in net proceeds so that total net proceeds to us in this offering were $320.9 million, the calculations in the preceding paragraph assume that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be $256.8 million and that we would purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $23.7 million aggregate principal amount of senior fixed notes for $25.1 million, and $26.7 million aggregate principal amount of senior floating notes for $25.1 million.

Table of Contents

Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2009

(*Dollars in millions*)	Actual (unaudited)	Pro Forma Adjustments(g) (unaudited)	Pro Forma (unaudited)
Assets			
Cash and cash equivalents	$ 380.8	$ (209.5)(a)	$ 171.3
Restricted cash	8.8		8.8
Other current assets	625.3		625.3
Total current assets	1,014.9	(209.5)	805.4
Goodwill, customer relationships and other intangible assets, net of accumulated amortization	2,560.7		2,560.7
Unamortized debt issuance costs	59.8	(3.7)(b)	56.1
Other assets	16.4		16.4
Property and equipment, net of accumulated depreciation	682.7		682.7
Total assets	$ 4,334.5	$ (213.2)	$ 4,121.3
Liabilities and Stockholders Equity			
Accounts payable and accrued expenses	$ 563.8	(9.5)(c)	$ 554.3
Income taxes payable	3.8	(12.9)(d)	(9.1)
Current maturities of long-term debt			
Total current liabilities	567.6	(22.4)	545.2
Long-term debt	2,522.9	(511.7)(e)	2,011.2
Deferred income tax liabilities	329.0		329.0
Other liabilities	114.0		114.0
Total stockholders equity	801.0	320.9(f)	1,121.9
Total liabilities and stockholders equity	$ 4,334.5	$ (213.2)	$ 4,121.3

(a) Represents proceeds of $368.0 million less underwriting discount, estimated offering expenses and the financial advisory agreement termination fees totaling $37.6 million, less the $539.9 million of cash used for repayment of Term Loan B debt and repurchase of notes, of which $15.1 million represents net premiums payable related to the repurchase of notes, $3.6 million represents amendment fees related to the Term Loan B debt and $9.5 million represents accrued interest paid at September 30, 2009 for repayment of Term Loan B debt and the repurchase of notes.

(b) Represents the write-down of previously recorded debt issue costs of $7.3 million related to the repurchase of notes, together with an increase of $3.6 million for amendment fees related to the Term Loan B debt.

(c) Represents a payment of accrued interest in connection with the repayment of Term Loan B debt and the repurchase of notes.

(d) Represents accrued income taxes in relation to the net premiums payable related to the repurchase of notes, the financial advisory agreement termination fees and the expensing of previously recorded debt issue costs.

(e) Represents the application of the net proceeds of this offering and available cash to repay $511.7 million of principal debt.

(f) Represents additional equity of $368.0 million related to the offering less $27.1 million of underwriting discount and estimated offering expenses, $15.1 million of net premiums payable related to the repurchase of notes, the expensing of previously recorded debt issue costs of $7.3 million and the $10.5 million financial advisory agreement termination fees, net of tax.

(g) This table presents certain pro forma data that adjust the historical data to give effect to, among other things, the use of an assumed $340.9 million of net proceeds from this offering to

Table of Contents

repurchase notes in a tender offer in which the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, will be $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million.

For each $20.0 million reduction in net proceeds we receive in this offering, we intend to reduce the maximum aggregate consideration for all notes purchased in the tender offer by $20.0 million. In that case, for each $20.0 million reduction in net proceeds, as of September 30, 2009: pro forma cash and cash equivalents would increase by approximately $0.5 million; pro forma total current assets would increase by approximately $0.5 million; pro forma unamortized debt issuance costs would increase by approximately $0.5 million; pro forma total assets would increase by approximately $1.0 million; pro forma accounts payable and accrued expenses would increase by approximately $0.5 million; pro forma income taxes payable would increase by approximately $0.2 million; pro forma total current liabilities would increase by approximately $0.7 million; pro forma long-term debt would increase by approximately $20.1 million; pro forma total stockholders equity would decrease by approximately $19.8 million; and pro forma total liabilities and stockholders equity would increase by approximately $1.0 million.

The calculations in the preceding paragraph assume that if we receive $20.0 million less in net proceeds, the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be reduced by $20.0 million, the principal amount of and aggregate consideration for senior subordinated notes we purchase in the tender offer would remain the same, and the aggregate consideration for senior fixed notes and senior floating notes we purchase in the tender offer would each be reduced by $10.0 million. For example, if we received $20.0 million less in net proceeds so that total net proceeds to us in this offering were $320.9 million, the calculations in the preceding paragraph assume that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be $256.8 million and that we would purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $23.7 million aggregate principal amount of senior fixed notes for $25.1 million, and $26.7 million aggregate principal amount of senior floating notes for $25.1 million.

Table of Contents

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements of KAR Auction Services and related notes, the consolidated financial statements of ADESA and related notes, the consolidated financial statements of IAAI and related notes, and other financial information included elsewhere in this prospectus.

Selected Historical Data of KAR Auction Services

For the Years Ended December 31, 2007 and 2008, and for the Nine Months

Ended September 30, 2009

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

(Dollars in millions except per share amounts)	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Operations:				
Operating revenues				
ADESA	$ 677.7	$ 1,123.4	$ 862.7	$ 838.6
IAAI	330.1	550.3	426.0	412.5
AFC	95.0	97.7	86.5	60.6
Total operating revenues	$ 1,102.8	$ 1,771.4	$ 1,375.2	$ 1,311.7
Operating expenses (exclusive of depreciation and amortization and impairment charges)	869.8	1,436.7	1,078.1	1,029.4
Goodwill and other intangibles impairment		164.4	164.4	
Operating profit (loss)	106.4	(12.5)	(4.6)	152.4
Interest expense	162.3	215.2	161.5	132.8
(Loss) income from continuing operations	(38.3)	(216.2)	(166.9)	17.9
Net (loss) income	(38.3)	(216.2)	(166.9)	17.9
Net earnings (loss) per share, basic and diluted	(0.36)	(2.02)	(1.56)	0.17
Weighted average shares outstanding				
Basic	106.7	106.9	106.9	106.9
Diluted	106.7	106.9	106.9	106.9

	At December 31, 2007	At December 31, 2008	At September 30, 2008 (unaudited)	At September 30, 2009 (unaudited)
Financial Position:				
Working capital(2)	$ 442.1	$ 304.3	$ 366.3	$ 447.3
Total assets	4,530.8	4,157.6	4,345.0	4,334.5
Total debt	2,616.7	2,527.4	2,561.0	2,522.9
Total stockholders equity	1,013.6	750.7	833.4	801.0

	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Other Financial Data:				

Net cash provided by operating activities	$ 96.8	$ 224.9	$ 207.5	$ 239.1
Capital expenditures	62.7	129.6	85.7	40.8
Depreciation and amortization	126.6	182.8	137.3	129.9

(1) The Company had no operations prior to the consummation of the 2007 Transactions on April 20, 2007; as such, this data represents the period from April 20, 2007 through December 31, 2007.

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

Table of Contents

Selected Historical Data of Predecessor ADESA

For the Years Ended December 31, 2004, 2005 and 2006 and For the Period January 1 Through April 19, 2007

The selected historical financial data of ADESA for the year ended December 31, 2006, for the period January 1 through April 19, 2007 and as of April 19, 2007 has been derived from the audited financial statements included elsewhere in this prospectus. The historical financial data for the years ended December 31, 2004 and 2005 and as of December 31, 2004, 2005 and 2006 presented below has been derived from audited financial statements that are not included in this prospectus. Certain amounts reported in previous periods have been reclassified to conform to the current presentation.

(Dollars in millions except per share amounts)	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	January 1-April 19, 2007
Operations:				
Operating revenues				
Auction services group	$ 808.9	$ 842.8	$ 959.9	$ 325.4
Dealer services group	116.6	126.0	144.0	45.9
Total operating revenues	$ 925.5	$ 968.8	$ 1,103.9	$ 371.3
Operating expenses (exclusive of depreciation and amortization)	676.6	700.6	832.5	297.6
Operating profit	213.0	227.4	224.9	57.8
Interest expense	25.4	31.2	27.4	7.8
Loss on extinguishment of debt	14.0	2.9		
Income from continuing operations	109.0	126.1	126.8	27.0
Net income	105.3	125.5	126.3	26.9
Basic earnings per share from continuing operations	$ 1.19	$ 1.40	$ 1.41	$ 0.30
Diluted earnings per share from continuing operations	$ 1.19	$ 1.40	$ 1.41	$ 0.29
Cash dividends declared per share	$ 0.075	$ 0.30	$ 0.30	$

	At December 31, 2004	At December 31, 2005	At December 31, 2006	At April 19, 2007
Financial Position:				
Working capital(1)	$ 358.2	$ 302.0	$ 325.2	$ 381.3
Total assets	1,915.0	1,945.5	1,975.3	2,219.5
Total debt	516.1	432.5	352.5	345.0
Total stockholders equity	1,011.4	1,089.9	1,203.5	1,238.7

	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	January 1-April 19, 2007
Other Financial Data:				
Net cash provided by operating activities	$ 175.5	$ 136.5	$ 190.9	$ 14.9
Capital expenditures	31.2	55.3	37.1	11.3
Depreciation and amortization	35.9	40.8	46.5	15.9

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

Table of Contents

Selected Historical Data of Predecessor IAAI

For the Fiscal Years Ended 2004, 2005 and 2006 and For the

Period January 1 Through April 19, 2007

The statement of operations data of IAAI for 2006 and for the period January 1, through April 19, 2007, and the balance sheet data as of April 19, 2007 has been derived from the audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for 2004 and 2005 as well as the balance sheet data for 2004, 2005 and 2006 has been derived from audited consolidated financial statements not included in this prospectus.

IAAI s consolidated financial statements for the periods subsequent to the merger in 2005 of Axle Merger Sub, Inc. with and into IAAI, which resulted in affiliates of Kelso & Company controlling IAAI, or the 2005 Acquisition, reflect a new basis of accounting incorporating the fair value adjustments made in recording the 2005 Acquisition and the related transactions, while the periods prior to the 2005 Acquisition reflect IAAI s historical cost basis. Accordingly, the accompanying selected financial data and other data as of dates and for periods ending on or prior to May 24, 2005 are labeled as predecessor, and the accompanying selected financial data and other data as of and for periods beginning after the date of the 2005 Acquisition are labeled as successor.

IAAI s fiscal year 2006 consisted of 53 weeks and ended on December 31, 2006. IAAI s fiscal years 2005 and 2004 each consisted of 52 weeks and ended on December 25, 2005 and December 26, 2004, respectively.

	Pre-Predecessor				
(Dollars in thousands)	**December 26, 2004**	**December 27, 2004 - May 24, 2005**	**May 25, 2005 - December 25, 2005**	**December 31, 2006**	**January 1 - April 19, 2007**
Operations:					
Revenues	$ 240,179	$ 120,445	$ 160,410	$ 331,950	$ 114,788
Earnings (loss) from operations	20,909	2,584	7,909	22,581	10,985
Net earnings (loss).	$ 12,265	$ (440)	$ (5,434)	$ (7,179)	$ (370)

	Pre-Predecessor			
(Dollars in thousands)	**2004**	**2005**	**2006**	**April 19, 2007**
Financial Position (at period end):				
Working capital(1)	$ 16,881	$ 52,002	$ 49,973	$ 53,798
Total assets	298,979	514,860	588,021	582,751
Total debt(2)	24,642	265,022	344,842	344,242
Current debt(2)	14,606	1,510	2,247	2,167
Long-term debt(2)	10,036	263,512	342,595	342,075
Total shareholders equity	202,651	144,024	137,576	139,927

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Selected Historical Consolidated Financial Data and the consolidated financial statements and notes thereto included elsewhere in this prospectus. The following discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The actual results could differ materially from those discussed in or implied by the forward-looking statements for various reasons including the reasons described in Risk Factors and Forward-Looking Statements.

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 redistribution industry: ADESA, IAAI and AFC.

The ADESA segment consists primarily of a 62 whole car auction network in North America. Vehicles at ADESA s auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. ADESA also provides value-added ancillary services including inspections, storage, transportation, reconditioning and titling and other administrative services.

The IAAI segment consists of salvage vehicle auctions and related services provided at 152 sites in North America. The salvage auctions facilitate the redistribution of damaged or low value vehicles designated as total losses by insurance companies and charity donation vehicles, as well as recovered stolen (or theft) vehicles. The salvage auction business specializes in providing services such as transportation, titling, salvage recovery and claims settlement administrative services.

The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. AFC conducts business through 87 branches in North America.

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

Industry Outlook and Trends

During the period from 1999 to 2008, despite fluctuations in economic conditions, new vehicle sales and churn (i.e., the rate of ownership transfer of vehicles in the used vehicle market), used vehicles sold in North America through whole car auctions per year have remained within the relatively narrow range of approximately 9.2 million to 10.0 million used vehicles per year. We believe that, despite challenging conditions in the overall economy and the automotive industry in 2008 and earlier in 2009 and the attendant fluctuations in new vehicle sales and churn, used vehicle auction volumes in North America in the foreseeable future will continue to be consistent with the range of approximately 9.2 million to 10.0 million used vehicles per year. We estimate that the vehicle population in the United States has increased from 209.5 million units in 1999 to 249.8 million units in 2008 and therefore the used vehicle market, and

Table of Contents

hence the used vehicle auction industry, have an even larger inventory of potential transactions to draw from. A larger vehicle population may offset any short-term decreases in new vehicle sales, which we believe has resulted in vehicle auction volumes remaining consistent during this time period.

During the period from 2006 through 2008, the North American salvage vehicle auction industry volumes have increased. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. The percentage of claims resulting in total losses continues at a high level of 14%. This trend, along with increases in miles driven and vehicles per household, has contributed to growth in salvage vehicle volumes.

In 2008 and earlier in 2009, the overall economy and in particular the automotive finance industries faced pressures which negatively affected the used vehicle dealer base. In excess of 4,000 independent dealers went out of business during 2008, almost a 10% reduction in the independent dealer base. Used vehicle dealers experienced a significant decline in sales which resulted in a decrease in loan originations and an increased number of dealers defaulting on their loans, increasing 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 continue, they could have a material adverse impact on AFC s results of operations.

In 2008 and earlier in 2009, significant changes occurred in the economy which impacted our business. A lack of availability of consumer credit for retail used vehicle buyers, a decline in consumer spending, a reduction in the number of franchised and independent used vehicle dealers in the Untied States, reduced miles driven and decreases in commodity prices such as steel and platinum all negatively impacted us. These factors contributed to a 3% decrease in revenues for each of ADESA and IAAI for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008.

In addition, changes in the business environment for automotive manufacturers have resulted in a number of initiatives to reduce costs in the auto industry. Chrysler LLC, or Chrysler, and General Motors Corporation, or GM, have a longstanding relationship with ADESA and regularly use our auctions to remarket their vehicles. Chrysler and GM have publicly announced that they are in the process of significantly reducing the number of franchised dealerships. The reduced number of franchised dealerships may have an impact on our future financial performance.

The availability of financing to franchised dealerships and consumers from the vehicle manufacturers captive finance companies and their respective remarketing programs may also impact the supply of vehicles to the wholesale auction industry in the future. A change in the supply of used vehicles could impact the value of used vehicles sold, conversion rates (calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale) and ADESA s profitability on the sale of vehicles.

Recent Events

We have agreed to terms for the securitization of AFC s Canadian receivables. This securitization facility will provide up to C$75 million in financing for eligible accounts receivable. The agreement is expected to be finalized in the first quarter of 2010, subject to customary conditions, and initial gross proceeds from the securitization will be approximately C$60 million. In accordance with terms of the Company s Credit Agreement, 50% of the net proceeds from the initial sale of AFC s Canadian receivables will be used to repay amounts outstanding on the Company s term loan.

Table of Contents

Effect of 2007 Transactions

The 2007 Transactions resulted in a new basis of accounting due to the transactions being accounted for under the purchase accounting method as required by GAAP. This change resulted in many differences between reporting for KAR Auction Services after the 2007 Transactions, and ADESA and IAAI independently prior thereto. The ADESA and IAAI financial data for periods ending on or prior to April 19, 2007 are generally not comparable to the financial data for subsequent periods. Since the acquisition resulted in an entirely new capital structure, there are significant differences between ADESA and IAAI pre-acquisition and KAR Auction Services post-acquisition in the balance sheets and statements of operations. In addition, KAR Auction Services incurred $2,590 million of debt in connection with the merger. The $662.6 million of debt related to ADESA and IAAI s credit facilities and notes was paid off in connection with the acquisition and contribution ($318.0 million for ADESA and $344.6 million for IAAI). As a result, interest expense and total debt are not comparable between the pre-acquisition and the post-acquisition companies. Certain purchase accounting adjustments have been made to increase or decrease the carrying amount of assets and liabilities as a result of estimates and certain reasonable assumptions, which, in certain instances, have resulted in changes to amortization and depreciation expense amounts.

Seasonality

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

Sources of Revenues and Expenses

Our revenue is derived from auction fees and related services at our whole car and salvage auction facilities and dealer financing fees and net interest income at AFC. Although auction revenues primarily include the auction services and related fees, our related receivables and payables include the value of the vehicles sold. AFC s net revenue consists primarily of securitization income and interest and fee income less provisions for credit losses. Securitization income is primarily comprised of the gain on sale of finance receivables sold, but also includes servicing income, discount accretion, and any change in the fair value of the retained interest in finance receivables 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 indirect payroll and related costs, sales and marketing, information technology services and professional fees.

Reportable Segments

Prior to April 19, 2007, ADESA, Inc. s operations were grouped into three operating segments: used vehicle auctions, Impact salvage auctions and AFC. These three operating segments were aggregated into two reportable business segments: Auction Services Group (used vehicle auctions and Impact salvage auctions) and Dealer Services Group (AFC and related businesses). Prior to April 19, 2007, IAAI operated in a single business segment. Concurrently with the 2007 Transactions, we

Table of Contents

established three reportable business segments: ADESA, IAAI and AFC. ADESA s Impact salvage auctions operating segment was combined with IAAI. For comparative purposes, ADESA Impact s results of operations are included in the IAAI segment for all periods presented below. These reportable segments offer different services have distinct suppliers and buyers of vehicles and are managed separately based on the fundamental differences in their operations.

Results of Operations

Overview of Results of KAR Auction Services for the Nine Months Ended September 30, 2008 and 2009:

(Dollars in millions)	**Nine Months Ended September 30, 2008**	**2009**
Revenues		
ADESA	$ 862.7	**$ 838.6**
IAAI	426.0	**412.5**
AFC	86.5	**60.6**
Total revenues	1,375.2	**1,311.7**
Cost of services*	792.9	**755.1**
Gross profit*	582.3	**556.6**
Selling, general and administrative	285.2	**274.3**
Depreciation and amortization	137.3	**129.9**
Goodwill and other intangibles impairment	164.4	
Operating profit (loss)	(4.6)	**152.4**
Interest expense	161.5	**132.8**
Other (income) expense, net	4.9	**(9.3)**
Income (loss) before income taxes	(171.0)	**28.9**
Income taxes	(4.1)	**11.0**
Net income (loss)	$ (166.9)	**$ 17.9**

* Exclusive of depreciation and amortization

For the nine months ended September 30, 2009, we had revenue of $1,311.7 million compared with revenue of $1,375.2 million for the nine months ended September 30, 2008, a decrease of 5%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization decreased $7.4 million, or 5%, to $129.9 million for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008. The decrease is representative of certain assets becoming fully depreciated as well as a decrease in 2009 capital spending compared to recent years.

Interest Expense

Interest expense decreased $28.7 million, or 18%, to $132.8 million for the nine months ended September 30, 2009, compared with $161.5 million for the nine months ended September 30, 2008. The decrease in interest expense was the result of a decrease in interest rates for our variable rate debt instruments as well as payments on Term Loan B of $59.3 million during 2008 which decreased

Table of Contents

the outstanding principal balance of our debt. In addition, the swap agreement which became effective on June 30, 2009 effectively resulted in a fixed LIBOR interest rate of 2.19% on $650 million of the term loan compared with the previous swap, which expired on June 30, 2009, and effectively resulted in a fixed LIBOR interest rate of 5.345% on $800 million of the term loan.

Other (Income) Expense

Other income was $9.3 million for the nine months ended September 30, 2009 compared with other expense of $4.9 million for the nine months ended September 30, 2008, representing an increase of $14.2 million. The change in other (income) expense was primarily representative of foreign currency transaction gains in 2009 versus foreign currency transaction losses in 2008, partially offset by a decrease in interest income resulting from lower interest rates in 2009.

Income Taxes

Our effective tax rate increased from 2.4% for the nine months ended September 30, 2008 to 38.1% for the nine months ended September 30, 2009. The increase in the tax rate was primarily attributable to the 2008 noncash goodwill impairment charge at AFC that was not deductible for tax purposes.

ADESA Results

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
ADESA revenue	$ 862.7	**$ 838.6**
Cost of services*	492.2	**468.1**
Gross profit*	370.5	**370.5**
Selling, general and administrative	181.1	**157.2**
Depreciation and amortization	69.1	**66.8**
Operating profit	$ 120.3	**$ 146.5**

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $24.1 million, or 3%, to $838.6 million for the nine months ended September 30, 2009, compared with $862.7 million for the nine months ended September 30, 2008. The decrease in revenue was primarily a result of a 2% decrease in revenue per vehicle sold and a less than 1% decrease in the total number of used vehicles sold at ADESA for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008.

The 2% decrease in revenue per vehicle sold resulted in decreased auction revenue of approximately $16.6 million. The decrease in revenue per vehicle sold reflects fluctuations in the Canadian exchange rate which decreased revenue by approximately $23.7 million for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. In addition, a net decrease in ancillary services such as shop services and other services resulted in decreased ADESA revenue of approximately $8.5 million. Partially offsetting the impact of the Canadian exchange rate and ancillary services was incremental fee income related to higher used vehicle values and selective fee increases.

The total number of used vehicles sold at ADESA decreased less than 1% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008 and resulted in a decrease in ADESA revenue of approximately $7.7 million. The volume sold decrease was attributable to same store volume decreases.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our used vehicle auctions, increased to 68.4% for the nine months ended September 30, 2009 compared with 61.8% for the nine months ended September 30, 2008. The increase in conversion rates was representative of a reduced supply of vehicles at auction combined with relatively constant demand.

Gross Profit

For the nine months ended September 30, 2009, gross profit in the ADESA segment remained constant at $370.5 million. Gross margin for ADESA was 44.2% of revenue for the nine months ended September 30, 2009 compared with 42.9% of revenue for the nine months ended September 30, 2008. The increase in gross margin percentage for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008 is representative of a decrease in lower margin ancillary services as well as reduced labor associated with the higher conversion rates.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment decreased $23.9 million, or 13%, to $157.2 million for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, primarily due to a $8.5 million decrease in marketing costs, a $5.3 million decrease for the prior year loss on the sale of land related to the sale-leaseback, a $4.7 million decrease in professional fees, a $4.2 million decrease in bad debt expense, a $3.1 million decrease related to fluctuations in the Canadian exchange rate and a $1.5 million decrease in supplies expense. The decreases to selling, general and administrative expenses were partially offset by an increase in incentive compensation expense and an increase in costs at sites acquired in 2008.

IAAI Results

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
IAAI revenue	$ 426.0	**$ 412.5**
Cost of services*	273.5	**264.5**
Gross profit*	152.5	**148.0**
Selling, general and administrative	52.7	**52.1**