

KAR Auction Services, Inc.  
Form 424B3  
November 30, 2012  
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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-174038**

The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell the shares and are not soliciting an offer to buy the shares in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED NOVEMBER 30, 2012**

PRELIMINARY PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JUNE 22, 2011

**\$200,000,000**

## **KAR Auction Services, Inc.**

### **Common Stock**

The shares of common stock are being sold by the selling stockholder. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol KAR. The closing price on the New York Stock Exchange on November 29, 2012 was \$18.60 per share.

The underwriters have an option to purchase a maximum of \_\_\_\_\_ additional shares from the selling stockholder.

**Investing in our common stock involves risks. See Risk Factors on page S-13.**

	<b>Price to Public</b>	<b>Underwriting Discounts and Commissions</b>	<b>Proceeds to Selling Stockholder</b>
Per Share	\$	\$	\$
Total	\$	\$	\$
Delivery of the shares of common stock will be made on or about	, 2012.		

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

**Credit Suisse**

**Goldman, Sachs & Co.**

**J.P. Morgan**

Lead Managers

**Barclays**

**BMO Capital Markets**

**BofA Merrill Lynch**

**Deutsche Bank Securities**

Senior Co-Managers

**Baird**

**Barrington Research**

**BB&T Capital Markets**

**Stephens Inc.**

The date of this prospectus supplement is \_\_\_\_\_, 2012.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus that we may issue. None of us, the selling stockholder or the underwriters have authorized anyone to provide you with information that is different. The selling stockholder is offering to sell these securities and seeking offers to buy these securities only in jurisdictions where the offers and sales are permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any related free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations or prospects may have changed since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and this offering in certain jurisdictions may be restricted by law. Persons who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or

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solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See the section entitled Underwriting beginning on page S-43 of this prospectus supplement.

**You should read this prospectus supplement and the accompanying prospectus carefully before investing in the common stock. This prospectus supplement and the accompanying prospectus contain the terms of this offering of common stock. This prospectus supplement may add, update or change information in the accompanying prospectus. In addition, the information incorporated by reference in the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus, this prospectus supplement will supersede such information.**

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In this prospectus supplement, unless otherwise specified or the context otherwise requires, the following terms have the following meanings:

the Company, we, us and our refer to KAR Auction Services, Inc., a Delaware corporation, and its subsidiaries;

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

AFC refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries;

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.;

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

KAR Auction Services refers 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; and

2007 Transactions refers to the following events: 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, IAA was contributed by affiliates of Kelso & Company and Parthenon Capital and IAA's management to KAR Auction Services. Both ADESA and IAA became wholly-owned subsidiaries of KAR Auction Services.

This prospectus supplement and the accompanying prospectus contain references to a number of trademarks (including service marks) that are our registered trademarks or trademarks for which we have pending applications or common law rights. These include, among others, OPENLANE, CarsArrive, LiveBlock, DealerBlock® and CSAToday and our logos. Trade names, trademarks and service marks of other companies appearing in this prospectus supplement are the property of their respective holders.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as should, may, will, anticipates, expects, intends, plans, believes, seeks, estimates and expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; dividend declarations and payments; guidance and our estimated results for 2012; strategic initiatives, greenfields and acquisitions; our competitive position and retention of customers; and our continued investment in information technology, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Risk Factors beginning on page S-13 of this prospectus supplement. Some of these factors include:

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

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

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

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

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

trends in the vehicle remarketing industry;

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

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

the introduction of new competitors;

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

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

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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 maintain our brand and protect our intellectual property;

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, including increased expenses as a result of Superstorm Sandy;

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general business conditions;

our substantial amount of debt;

restrictive covenants in our debt agreements;

our assumption of the settlement risk for vehicles sold;

any impairment to our goodwill or other intangible assets;

our self-insurance for certain risks;

any losses of key personnel;

interruptions to service from our workforce;

changes in effective tax rates;

changes to accounting standards; and

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

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

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, expand our product and service offerings, including information systems development, acquire and integrate additional business entities, manage expansion, control costs in our operations, introduce fee increases, and retain our executive officers and key employees. We cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other remarketing methods in the future and what impact this may have on our auction business.



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**SUMMARY**

*This summary description about us and our business highlights selected information contained elsewhere in this prospectus supplement or incorporated by reference into this prospectus supplement. It does not contain all the information you should consider before purchasing our securities. This summary may not contain all of the information that may be important to you. You should read in their entirety this prospectus supplement, the accompanying prospectus and any other related free writing prospectus, together with the additional information described under the section entitled "Where You Can Find More Information" beginning on page S-49 of this prospectus supplement. You should pay special attention to the "Risk Factors" section beginning on page S-13 of this prospectus supplement to determine whether an investment in our common stock is appropriate for you.*

**Our Company**

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 229 physical auction locations at September 30, 2012, and multiple proprietary Internet venues. In 2011, we facilitated the sale of over 3.1 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 transportation, reconditioning, inspections, storage, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold at our auctions. For the twelve-month period ended September 30, 2012, our revenues totaled \$1,950 million, and our Adjusted EBITDA was \$492.4 million. For the twelve-month period ended September 30, 2012, our net income was \$83.6 million. For a reconciliation of net income (loss) to Adjusted EBITDA, which is a non-GAAP financial measure, see Summary Consolidated Financial Data.

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. In 2011, we acquired OPENLANE, the premier upstream online platform focused on private label auction sales for automobile original equipment manufacturers, or OEMs, and their captive finance companies. OPENLANE provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. IAA, 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 predominantly sold 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 IAA's services to their buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary AFC.

At September 30, 2012, we had a network of 68 whole car auction locations and 161 salvage auction locations. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. 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 remarketing 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

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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:

### ***Whole Car Industry Volumes***

During the period from 1999 to 2009, approximately 9 to 10 million used vehicles per year were sold in North America through whole car auctions. In 2010 and 2011, this number declined to 8.4 million and 7.7 million units, respectively. We estimate that used vehicle auction volumes in North America during 2012 will be consistent with 2011. The reduction in auction volumes since 2009 is attributable to supply shortages in the North American whole car auction industry caused principally by declines in new vehicle sales and lease originations from 2007 to 2009 and declines in repossessions from 2009 to 2012. We expect the industry to experience an increase in whole car auction volumes as a result of increasing new vehicle sales and lease originations since 2009 and improving credit availability.

### ***Salvage Auction Industry Volumes***

We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, the increased complexity of vehicles in operation and the increased utilization of after-market recycled parts within the collision repair industry. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage volumes will continue to grow over time as the salvage auction industry expands the number of non-insurance vehicles sold, including charity, direct-to-consumer and dealer sales.

### ***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 together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 25% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing an estimated 70% of the market, with each representing approximately equivalent shares.

### ***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 physical auctions. In addition, the need to comply with regulatory requirements would pose a challenge for new entrants to build a large-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.

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### **Our Competitive Strengths**

#### ***Leading Provider of Both Whole Car and Salvage Vehicle Auctions***

We are the second largest provider of whole car auctions and the co-leader of salvage vehicle auctions and related services in North America, with estimated market shares of approximately 25% and 35% in the whole car and salvage auction markets, respectively. At September 30, 2012, we had 68 whole car and 161 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, including 12 co-located whole car and salvage facilities, 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 104 branches primarily supporting over 11,000 independent dealers across North America who purchase vehicles primarily from whole car auctions. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction.

#### ***Sophisticated Internet-Based Auction Services Complement Physical Presence***

The services that we provide 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.

#### ***ADESA***

For our whole car customers, we complement physical auction with OPENLANE (the premier upstream online platform focused on private label auction sales for automobile manufacturers, captive finance companies and other institutions), LiveBlock™ (real-time simulcast of the physical auction via the Internet, provided by our wholly-owned subsidiary LAI), 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.

#### ***IAA***

For our salvage buyers, we complement physical auctions with i-Bid LIVE, a real-time simulcast of the physical auction via the Internet, which allows both a live and Internet buyer to participate in the auctions. i-Bid LIVE's feature rich user interface allows buyers to search inventory, review photos, set up alerts, shop for and purchase vehicles, bid and buy all from one platform. i-Bid LIVE is also mobile-compatible, providing buyers the added flexibility to participate in IAA auctions from a smart phone or tablet, and is available as a mobile application.

Suppliers, including insurance companies and other participants, can also better process and manage their salvage inventory with IAA's technology. Specific to insurance company suppliers, IAA's patent-pending title procurement tools provide an efficient method of procuring titles and tracking a vehicle's title in the process. This helps reduce cycle time for insurance companies and provides for faster sales of total loss vehicles through IAA's auctions. In addition, IAA's proprietary Internet-based salvage management tool, CSAToday, provides transparency to suppliers' inventory, as well as provides tools, such as salvage return analysis and electronic assignment interfaces. CSAToday is also mobile-compatible, which provides added efficiency to suppliers.

#### ***Provider of High Value Added, Integrated 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. Our services are provided by ADESA at

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its physical auction locations and wholly-owned brands such as AFC, CarsArrive, Professional Auto Remarketing (PAR), AutoVIN and Dent Demon. For the twelve months ended September 30, 2012, we generated a combined total of more than \$600 million of revenue from pre- and post-auction services. Pre-auction services include transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), inspections, storage, titling and other administrative services. Post-auction services include post-sale inspections, reconditioning, the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery 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, institutional customers and automobile insurance companies. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 3% of our consolidated revenue in 2011, and our average relationship is more than ten years with our top ten vehicle suppliers. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North America, including, but not limited to, GM Financial, Capital One Auto Finance, Avis, Chase Auto Finance, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, HSBC, Mercedes-Benz, Santander Consumer, Toyota and Wells Fargo. Furthermore, OPENLANE operates private label platforms for many leading OEMs, including Ford, Honda, Volkswagen, Hyundai, Chrysler, GM Financial, BMW and others. IAA enjoys long-term relationships with top automobile insurers, including, but not limited to, American Family Insurance, GEICO, Progressive, State Farm, USAA and Zurich Financial Services.

### ***Low Capital Intensity and Resilient Financial Model***

Our low maintenance capital expenditures and working capital requirements enable the business to generate consistently strong cash flows through a diversified mix of operations. Our business segments are complementary to each other and create a resilient platform for future growth. We generally do not take title to or bear the risk of loss for 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. We expect our low capital intensity financial model to allow us to produce significant free cash flow in the future enabling us to continue to reduce debt and return capital to shareholders.

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

Our senior management team continues to implement and execute on various growth initiatives that have resulted in increasing revenue and gross profit expansion during the past five years. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our revenues at auction while facing decreasing trends in industry volumes. Furthermore, the management team has implemented a disciplined expansion strategy, acquiring or building numerous auction locations and offering more services since 2009. We believe our management team's integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and across the remarketing lifecycle 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.

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### **Our Business Strategy**

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

#### ***Expand Opportunities for Customers to Buy and Sell Online***

We are focused on enhancing our Internet solutions in all of the key channels, and we will continue to invest in our technology platforms to capitalize on new opportunities and attract new customers. 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. In October 2011, we acquired OPENLANE in order to better capitalize on the increasing use of the Internet as a means to purchase wholesale vehicles. OPENLANE offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions throughout the United States and Canada. IAA 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), online solutions to offer vehicles for sale while in transit to auction locations (midstream selling) and broadcasting video and audio of the physical auctions to online bidders (simulcast).

#### ***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 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 assists the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives 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 whole car auctions. On a same store basis, our dealer consignment sales volumes were up approximately 12% and 13% for the nine months ended September 30, 2012 and for the twelve months ended December 31, 2011, respectively, compared with the same periods in prior years.

#### ***Continue to Grow Revenue per Vehicle***

From 2008 through September 30, 2012, our whole car (excluding OPENLANE) and salvage revenue per vehicle grew at compound annual growth rates of 1.7% and 3.4%, respectively. Revenue per vehicle generally consists of auction fees and fees from ancillary services. Increased utilization of ancillary services, selective fee increases, higher used vehicle prices 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 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.

#### ***Leverage AFC s Products and Services at ADESA and IAA***

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

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and IAA to capitalize on cross-selling opportunities with AFC. By encouraging a collaborative marketing effort between AFC, ADESA and IAA, we believe we can market an enterprise solution more effectively to used vehicle 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.

### ***Grow Our Non-Insurance Salvage Auction Customer Base***

More than 12 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 the total unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers, which includes charitable organizations, rental car, captive finance and fleet companies, as well as the general public. ADESA's strong customer relationships with used vehicle dealers as well as rental car, captive finance and fleet companies provide an advantage in accessing the rental car, captive finance and fleet company segments, as these customers already use ADESA's whole car auction services.

### ***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. Since 2007, a number of initiatives have been implemented, which have streamlined operations and improved operating efficiencies. As part of these initiatives, we introduced a management operating system to actively monitor and manage staffing levels and, as a result, have realized additional labor efficiency gains. Additional efficiencies have been gained through two of our wholly-owned subsidiaries, AuctionTrac, a vehicle tracking system at ADESA, and CarsArrive, an Internet-based system that allows customers to review instantly price quotes, delivery times, available transportation loads and also to receive instant notification of available shipments.

### ***Use Excess Cash Flow to Reduce Debt and Return Capital to Shareholders***

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. Management plans to utilize a significant portion of excess cash generated by the business for debt reduction and return capital to shareholders for the foreseeable future. We generated \$238.0 million and \$305.8 million of cash flow from operations for the nine months ended September 30, 2012 and the twelve months ended December 31, 2011, respectively. On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock and declared an initial quarterly cash dividend of \$0.19 per share, representing an annualized dividend of \$0.76 per share, to be paid in December 2012. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support further de-leveraging and future growth.

### ***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 IAA 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 IAA.

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### ***Increase Our International Presence***

In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 100 countries. We believe we are well positioned to grow internationally through both technology-based and physical auction expansion. We continue to identify opportunities to expand certain of our service offerings globally. We specifically plan to extend our OPENLANE technology. We expect that our ability to efficiently layer in the OPENLANE product and technology licensing will allow us to conveniently enter mature auction markets.

### **Recent Developments**

#### ***New Dividend Policy and First Dividend Payment in 2012***

On November 30, 2012, we announced that our board of directors has approved the initiation of a quarterly cash dividend on our common stock. The initial quarterly dividend of \$0.19 per share will be paid on December 28, 2012 to stockholders of record at the close of business on December 19, 2012, representing an annualized dividend of \$0.76 per share.

The declaration and payment of any future dividend will be subject to the discretion of our board of directors and will depend on a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our credit agreement, AFC's securitization facilities and the indenture governing our outstanding debt securities, capital requirements and other factors that our board of directors deems relevant. Therefore, no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

We obtained an amendment to our credit agreement to increase the amount of restricted payments that we are permitted to make thereunder.

#### ***Superstorm Sandy***

On October 29, 2012, a severe storm, Superstorm Sandy, made landfall on the East Coast causing catastrophic flooding and damage, particularly in New Jersey and New York. An extreme weather event such as Superstorm Sandy adversely affects the overall economic environment. Specifically, in our industry, Superstorm Sandy may result in a sharp influx in the available supply of salvage vehicles. Salvage revenues, however, generated as a result of the total loss of vehicles associated with such a catastrophe are typically recognized subsequent to the incurrence of incremental costs. See Risk Factors Risks Related to Our Business Weather-related and other events beyond our control may adversely impact operations.

#### ***2012 Outlook***

We continue to expect 2012 Adjusted EBITDA of \$500 million \$510 million. We also continue to expect 2012 net income per share of \$0.63 \$0.68 and adjusted net income per share of \$1.00 \$1.05, both assuming an effective tax rate of approximately 43%. Adjusted net income per share is a non-GAAP financial measure and represents GAAP net income per diluted share excluding excess depreciation and amortization and stock-based compensation, both resulting from the 2007 Transactions, net of taxes, and contingent consideration adjustment, net of tax. Additionally, we continue to expect 2012 cash taxes of approximately \$70 million, cash interest expense on corporate debt of approximately \$95 million and capital expenditures of approximately \$90 million. This would result in 2012 free cash flow of approximately \$245 million \$255 million.

We also expect 2012 total operating revenues of \$1.925 billion \$1.965 billion.

These estimated results are forward-looking statements based on preliminary data and management's estimates, and our actual results may be materially different from these estimated results. These estimated results

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are preliminary, unaudited and subject to completion, reflect management's current views with respect to future results and may change as a result of developments through year-end 2012, management's review of our results and other factors. Accordingly, you should not place undue reliance on these estimated results. Our independent registered public accounting firm has not audited, reviewed or performed any procedures with respect to these estimated results and does not express any opinion or any other form of assurance with respect thereto.

**Our Corporate Information**

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](http://www.karauctionservices.com). The information on, or accessible through, the website is not a part of, or incorporated by reference into, this prospectus supplement. This reference to our website is an inactive textual reference only and is not a hyperlink. You should not consider the contents of our website in making an investment decision with respect to our securities.



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**The Offering**

Common stock offered by the selling stockholder	shares
Option to purchase additional shares from the selling stockholder	shares
Common stock outstanding before and after this offering(1)	136,648,020 shares
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling stockholder in this offering. The selling stockholder will receive all net proceeds from this offering.
NYSE symbol	KAR
Risk Factors	Investing in our common stock involves risks. See Risk Factors beginning on page S-13 to read about factors you should consider before buying our common stock.
Conflict of Interest	Because affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock, Goldman, Sachs & Co. is deemed to be an affiliate of the Company within the meaning of Rule 5121 of the Financial Industry Regulatory Authority, or Rule 5121, and is deemed to have a conflict of interest under Rule 5121. In addition, KAR LLC, the selling stockholder and an affiliate of Goldman, Sachs & Co., will receive all of the net proceeds of this offering. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5121 as required by Rule 5121. Because there is a bona fide public market (as defined in Rule 5121) for our common stock, the Rule 5121 requirement for the participation of a qualified independent underwriter does not apply to this offering.

(1) Based on 136,648,020 shares of our common stock outstanding as of November 15, 2012. Does not include 3,540,593 shares of common stock reserved for future issuance under our equity incentive plans or 9,612,121 shares of common stock issuable upon the exercise of stock options outstanding as of November 15, 2012, at a weighted average exercise price of \$11.51 per share. Except as otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters' option to purchase additional shares.

**Table of Contents****Summary Consolidated Financial Data**

The following table sets forth our summary consolidated financial data as of the dates and for the periods indicated. The summary consolidated financial data as of and for the years ended December 31, 2011, 2010 and 2009 have been derived from our audited consolidated financial statements and the related notes incorporated by reference in this prospectus supplement. The summary consolidated financial data as of and for the nine months ended September 30, 2012 and 2011 have been derived from our unaudited interim consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and includes all adjustments (consisting of normal recurring adjustments) that we consider necessary for a fair presentation of the financial position and the results of operations for these periods. The results presented below are not necessarily indicative of the results to be expected for any future period.

The following summary consolidated financial data should be read in conjunction with Risk Factors, our audited consolidated financial statements and related notes, and other financial information incorporated by reference in this prospectus supplement.

(Dollars in millions except per share amounts)	Twelve Months	Nine Months		Years Ended December 31,		
	Ended September 30, 2012	Ended September 30, 2012	Ended September 30, 2011	2011	2010	2009
<b>Operations:</b>						
Operating revenues						
ADESA	\$ 1,041.7	\$ 791.4	\$ 767.1	\$ 1,017.4	\$ 1,075.9	\$ 1,088.5
IAA	720.4	534.1	513.8	700.1	610.4	553.1
AFC(1)	187.4	144.2	125.6	168.8	136.3	93.9
Total operating revenues	\$ 1,949.5	\$ 1,469.7	\$ 1,406.5	\$ 1,886.3	\$ 1,822.6	\$ 1,735.5
Operating expenses (exclusive of depreciation and amortization)(1)	1,492.5	1,116.6	1,048.7	1,424.6	1,382.5	1,367.8
Operating profit	265.3	209.7	226.3	281.9	268.8	195.3
Interest expense	120.6	89.8	112.3	143.1	141.4	172.6
Income from continuing operations	83.6	69.1	57.7	72.2	69.6	23.2
Net income	83.6	69.1	57.7	72.2	69.6	23.2
Net income per share						
Basic		0.51	0.42	0.53	0.52	0.21
Diluted		0.50	0.42	0.52	0.51	0.21
Weighted average shares outstanding						
Basic		136.4	135.9	136.0	134.9	108.0
Diluted		138.8	137.7	137.8	135.9	108.1
<b>Financial Position:</b>						
Working capital(2)	\$ 319.4	\$ 330.6	\$ 177.0	\$ 287.9	\$ 299.5	
Total assets	4,926.0	4,611.6	4,779.1	4,525.0	4,251.3	
Total debt, net of unamortized debt discount	1,822.2	1,837.8	1,902.8	1,875.7	2,272.9	
Total stockholders' equity	1,445.4	1,312.9	1,343.2	1,244.6	1,141.5	

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	Twelve Months Ended September 30, 2012	Nine Months Ended September 30, 2012      2011		Years Ended December 31, 2011      2010      2009		
<b>Other Financial Data:</b>						
EBITDA(3)	\$ 457.1	\$ 354.6	\$ 310.1	\$ 412.6	\$ 409.4	\$ 378.9
Adjusted EBITDA(3)	492.4	380.3	375.1	487.2	475.2	425.9
Net cash provided by operating activities	338.3	238.0	205.5	305.8	467.6	250.8
Capital expenditures	82.4	60.8	64.2	85.8	78.9	65.6
Depreciation and amortization	191.7	143.4	131.5	179.8	171.3	172.4

- (1) Prior to 2011, certain AFC fees collected from customers were netted against cost of services, as well as certain selling, general and administrative expenses. Such fees included lot check fees, filing fees and postage fees, each of which are charged to and collected from AFC's customers. Beginning in 2011, these fees were included in revenue with the corresponding costs reflected in their respective expense categories, resulting in an increase to revenue, as well as an increase to the related expenses for all periods presented. Prior year amounts have been revised to reflect these changes.
- (2) Working capital is defined as current assets less current liabilities.
- (3) EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for net income (loss) or any other performance measures derived in accordance with GAAP.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings as 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 measures of performance used by our creditors. In addition, management uses Adjusted EBITDA to evaluate our performance and to evaluate results relative to incentive compensation targets. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

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

(Dollars in millions)	Twelve Months	Nine Months		Years Ended		
	Ended September 30, 2012	Ended September 30, 2012	2011	2011	2010	2009
Net income (loss)	\$ 83.6	\$ 69.1	\$ 57.7	\$ 72.2	\$ 69.6	\$ 23.2
Add back:						
Income taxes	61.4	52.4	8.8	17.8	27.2	11.1
Interest expense, net of interest income	120.4	89.7	112.1	142.8	141.3	172.2
Depreciation and amortization	191.7	143.4	131.5	179.8	171.3	172.4
<b>EBITDA</b>	457.1	354.6	310.1	412.6	409.4	378.9
Adjustments	35.3	25.7	65.0	74.6	65.8	47.0
<b>Adjusted EBITDA</b>	\$ 492.4	\$ 380.3	\$ 375.1	\$ 487.2	\$ 475.2	\$ 425.9

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**RISK FACTORS**

*An investment in our securities involves a high degree of risk. You should carefully consider the specific risks described below in addition to those set forth in our other filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act before making an investment decision. If any of these risks actually materializes, our business, financial condition, results of operations and prospects could be materially adversely affected. As a result, the value of our securities could decline and you could lose part or all of your investment. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially affect our business, financial condition, results of operations and prospects. See the section entitled *Where You Can Find More Information* beginning on page S-49 of this prospectus supplement.*

**Risks Related to Our Business**

**Decreases in the supply of used vehicles coming to auction have and may continue to impact auction sales volumes and may adversely affect our revenues and profitability.**

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. Based on our estimates, off-lease vehicles available at auction for the industry declined slightly in 2010 and declined by over 40% in 2011, reflecting declines in lease origination volume and new vehicle sales three years earlier during the recent global economic downturn and credit crisis. If the supply of off-lease vehicles coming to auction declines further, our revenues and profitability may be adversely affected. Our expectation is that the decline in off-lease vehicles will disproportionately impact Canada, where we have a significant auction market presence.

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.

As recently as 2009, the auction industry sales volume was over 9 million units. However, auction sales volumes declined to approximately 7.7 million units in 2011 (excluding approximately 0.3 million units sold by OPENLANE). We believe that auction sales volumes will recover over the next several years, and we estimate volumes to reach nearly 9 million units by 2015, including OPENLANE volumes. We believe that an increase in the volume of off-lease and repossessed vehicles, among others, that are remarketed through whole car auctions are a significant contributor to this growth, and our performance could be adversely impacted if volumes do not increase and we are not able to reduce our costs permanently to compensate for the lower industry auction volumes.

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

Future adverse economic conditions could increase our exposure to several risks, including:

*Fluctuations in the supply of used vehicles.* We are dependent on the supply of used vehicles coming to auction, and our financial performance depends, in part, on conditions in the automotive industry. 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 and could lead

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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.

*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.

*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. In addition, if consumers eliminate their automotive collision coverage, this could result in fewer vehicles being declared a total loss.

*Decrease in consumer spending.* Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Expected changes to U.S. federal tax policy in 2013 may negatively affect consumer spending. To the extent retail demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.

*Volatility in the asset-backed securities market.* Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.

*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.

**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, including with respect to our online auctions. 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.

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Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If these systems were compromised, not operable for extended periods of time or ceased to function properly, we may have to make a significant investment to fix or replace them and 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.

Aspects of our operations and business are subject to privacy regulation in the United States and elsewhere. Many U.S. states have enacted data breach regulations and laws requiring varying levels of consumer notification in the event of a security breach. Increased regulation and enforcement activity throughout the world in the areas of data privacy and data security/breach may materially increase our costs, which could have a material adverse effect on our operating results. Our failure to comply with the privacy and data security/breach laws to which we are subject could also result in fines, sanctions and damage to our reputation and trade names.

### **Used vehicle prices have a significant effect on fee revenue per unit at IAA and loan losses at AFC and may impact the supply of used vehicles at ADESA.**

The volume of new vehicle production, accuracy of lease residual estimates, interest rates, customer demand and changes in regulations, among other things, all potentially affect the pricing of used vehicles. Used vehicle prices may affect the volume of vehicles entered for sale at our used vehicle auctions and the demand for those used vehicles, the fee revenue per unit at our salvage auctions, loan losses for our dealer financing business and our ability to retain customers. Throughout 2011, used vehicle prices remained high, which led many used vehicle dealers to retail more of their trade-in vehicles on their own rather than selling them at auction. The high used vehicle prices in 2011 also contributed to strong proceeds in the salvage auction industry. In contrast, a sustained reduction in used vehicle pricing could result in lower proceeds from the sale of salvage vehicles and a related reduction in revenue per vehicle, a potential loss of consignors, an increase in loan losses at AFC and decreased profitability.

### **Significant competition exists in our industry and we may not be able to retain customers.**

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 addition, due to the increased viability of the Internet as a marketing and distribution channel, new competition has evolved from Internet-based companies and our own customers who have historically remarketed vehicles through various channels, including our auctions. In the whole car and salvage auctions and the 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.

ADESA currently competes with online wholesale and retail vehicle selling platforms, including OVE.com, SmartAuction, 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 remarketing methods, our revenue and profitability may be negatively impacted.

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

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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.

ADESA and IAA's agreements with its largest institutional suppliers of used and salvage vehicles are generally subject to cancellation by either party upon 30 to 90 days' notice. In addition, it is common that institutional suppliers regularly review their relationships with whole car and salvage auctions through written requests for proposals. 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. 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.

### **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, a decrease in the percentage of claims resulting in a total loss, 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 slight decline in the percentage of claims resulting in total losses, as well as 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.

### **An increase in the number of used and salvage vehicles purchased on virtual auction platforms could materially adversely affect our operating results and financial condition.**

We acquired OPENLANE in recognition of the increasing use of the Internet as a means to purchase wholesale vehicles. In connection with online auctions, ADESA and IAA offer physical auctions, which allow buyers to physically inspect and compare vehicles. If sellers and buyers increase the number of vehicles transacted on virtual auction platforms, our revenue per vehicle will likely decline. In addition, our cost structure includes a significant fixed cost component, including occupancy costs, that cannot be reduced if revenue per vehicle declines. If a shift in the percentage of used and salvage vehicles sold online as compared with used and salvage vehicles sold at physical auctions occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.



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

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 businesses, 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 businesses;

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.

### **We may not successfully implement our business strategies or maintain 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 IAA 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 \$305.8 million and \$467.6 million of cash flow from operations for the years ended December 31, 2011 and 2010, 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.

### **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 securitizes a majority of its finance receivables on a revolving basis. Volatility and/or market disruption in the asset-backed securities market in the U.S. or Canada can impact AFC's cost of financing related to, or its ability to arrange financing on acceptable terms through, its securitization facility, which could negatively affect AFC's business and our financial condition and operations.

In addition, AFC typically assesses its U.S. dealer customers with an interest rate comprised of a minimum prime rate of 5% plus an interest spread. The U.S. prime rate was 3.25% at September 30, 2012. Any increase



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above 3.25% up to 5% will likely compress AFC's margins as the variable cost of securitizing receivables will rise without a corresponding increase in the financing rate AFC charges to its U.S. dealer customers.

### **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.

### **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. In some instances, for example with the recent severe storm in October 2012, known as Superstorm Sandy, these events may result in a sharp influx in the available supply of salvage vehicles and there can be no assurance that our salvage auction business will have sufficient resources to handle such extreme increases in supply. Our failure to meet our customers' demands in such situations could negatively affect our relationships with such customers and result in a loss of future business, which would adversely affect our operating results and financial condition. In addition, salvage revenues generated as a result of the total loss of vehicles associated with such a catastrophe are typically recognized subsequent to the incurrence of incremental costs.

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.

The growing political and scientific sentiment is that increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere may influence the unpredictability, severity and frequency of weather patterns. Changing weather patterns could further impact our operations as described above.

### **High fuel prices could lead to a reduction in miles driven and 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.

### **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, 2011, 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.

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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.

**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 remarketing 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 one instance, contamination migrated to nearby properties which resulted 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.

On March 25, 2008, the United States Environmental Protection Agency, or the EPA, issued a General Notice of Potential Liability, or General Notice, pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA to IAA for a Superfund site known as the Lower Duwamish Waterway Superfund Site ( LDW Site ) in Seattle, Washington. On November 7, 2012, the EPA issued a Second General Notice of Potential Liability, or Second General Notice, to IAA for the LDW Site. Since 2004, IAA has operated a branch on property it leases in Tukwila, Washington, which is located adjacent to the LDW Site. The LDW Site was identified as a Superfund site in 2001, three years before IAA began leasing the branch in Tukwila. At this time, the EPA has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA's website indicates that the EPA has issued notice letters to approximately 111 entities, and has issued Section 104(e) Requests to more than 300 entities. Four Potentially Responsible Parties, or PRPs, The Boeing Company, the City of Seattle, the Port of Seattle and King County, have funded a remedial investigation and feasibility study of the LDW Site, but the EPA has not yet issued a plan for remediating the site. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a PRP, but the EPA has not specified the factual basis for this assertion. At this time, the Company does not have adequate information to determine IAA's responsibility for contamination at this site, if any, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of Ecology is working with the EPA in relation to the LDW Site, primarily to investigate and address sources of potential contamination contributing to the LDW Site. The current Tukwila property owner, the former Tukwila property owner and IAA have had discussions with the Washington State Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system. In 2011, IAA submitted

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results of its stormwater system investigation to comply with the Washington State Department of Ecology source control requirements. Additional source control obligations, if any, are not expected to have a material adverse effect on future recurring operating costs.

**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, 2012, our total debt was approximately \$1.8 billion, exclusive of liabilities related to our securitization facilities, and we had \$250.0 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of \$22.8 million at September 30, 2012, which reduce the amount available for borrowings under the credit facilities.

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 for other purposes, including funding future expansion;

making us more vulnerable to adver