2012 Form 10-K
Proxy Statement

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032

April 30, 2013

Dear Stockholder:

We cordially invite you to attend KAR Auction Services' annual meeting of stockholders. The meeting will be held on Wednesday, June 12, 2013, at 9:00 a.m., Eastern Daylight Time, at the Renaissance Indianapolis North Hotel, 11925 North Meridian Street, in Carmel, Indiana 46032.

At the meeting, stockholders will vote on a number of important matters. Please take the time to carefully read each of the proposals described in the attached proxy statement.

Thank you for your support of KAR Auction Services.

Sincerely,

James P. Hallett
Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials
for our Stockholder Meeting to be Held on June 12, 2013

Our 2012 Annual Report and this proxy statement, each of which are being provided concurrently with this notice, are available electronically via the Internet at www.karauctionservices.com. We encourage you to review all of the important information contained in these proxy materials before voting.

This proxy statement is dated April 30, 2013.
This proxy statement and the accompanying proxy card are being mailed to
KAR Auction Services' stockholders beginning on or about April 30, 2013.

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Date	9:00 a.m., Eastern Daylight Time, on June 12, 2013
Place	Renaissance Indianapolis North Hotel 11925 North Meridian Street Carmel, Indiana 46032
Items of Business	***Proposal No. 1:*** To elect thirteen directors to the Board of Directors. ***Proposal No. 2:*** To approve the material terms of the performance goals under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan in accordance with Section 162(m) of the Internal Revenue Code. ***Proposal No. 3:*** To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2013. To transact any other business as may properly come before the meeting or any adjournments or postponements thereof.
Record Date	You are entitled to vote at the annual meeting and at any adjournments or postponements thereof if you were a stockholder of record at the close of business on April 17, 2013.
Voting by Proxy	Please submit your proxy card as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on your enclosed proxy card.

On Behalf of the Board of Directors,

Rebecca C. Polak
Executive Vice President,
General Counsel and Secretary

April 30, 2013
Carmel, Indiana

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KAR AUCTION SERVICES, INC.

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: ***Why am I receiving these materials?***

A: We are providing these proxy materials to you in connection with the solicitation, by the Board of Directors of KAR Auction Services, Inc. (the "Company" or "KAR Auction Services"), of proxies to be voted at the Company's 2013 annual meeting of stockholders and at any adjournments or postponements thereof. Stockholders are invited to attend the annual meeting to be held on June 12, 2013 beginning at 9:00 a.m., Eastern Daylight Time, at the Renaissance Indianapolis North Hotel, 11925 North Meridian Street, Carmel, Indiana 46032. Our proxy materials are being mailed to stockholders on or about April 30, 2013.

Q: ***What proposals will be voted on at the annual meeting?***

A: There are three proposals scheduled to be voted on at the annual meeting:

- To elect thirteen directors to the Board of Directors;
- To approve the material terms of the performance goals under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan (the "Omnibus Plan") in accordance with Section 162(m) of the Internal Revenue Code; and
- To ratify the appointment of KPMG LLP ("KPMG") as our independent registered public accounting firm for 2013.

Q: ***What is the Board of Directors' voting recommendation?***

A: The Company's Board of Directors recommends that you vote your shares:

- **"FOR"** each of the nominees to the Board of Directors;
- **"FOR"** approval of the material terms of the performance goals under the Omnibus Plan in accordance with Section 162(m) of the Internal Revenue Code; and
- **"FOR"** the ratification of the appointment of KPMG as our independent registered public accounting firm for 2013.

Q: ***Who is entitled to vote?***

A: All shares owned by you as of the record date, which is the close of business on April 17, 2013, may be voted by you. You may cast one vote per share of common stock that you held on the record date.

These shares include shares that are:

- held directly in your name as the stockholder of record; and
- held for you as the beneficial owner through a stockbroker, bank or other nominee, including shares purchased under the KAR Auction Services, Inc. Employee Stock Purchase Plan (the "Employee Stock Purchase Plan").

On the record date, KAR Auction Services had approximately 137,105,649 shares of common stock issued and outstanding.

Q: ***What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

A: Many of our stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with the Company's transfer agent, American Stock Transfer & Trust Company, LLC, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you directly by KAR Auction Services. As the stockholder of record, you have the right to grant your voting proxy directly to the Company or to vote in person at the annual meeting. KAR Auction Services has enclosed a proxy card for you to use. You may also vote on the Internet or by telephone, as described below under the heading "How can I vote my shares without attending the annual meeting?"

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker on how to vote your shares and are also invited to attend the annual meeting. To vote these shares in person at the annual meeting, you must obtain a signed proxy from the record holder giving you the right to vote the shares. Your broker or nominee has enclosed a voting instruction card for you to use in directing your broker or nominee as to how to vote your shares. You may also vote by Internet or by telephone, as described below under "How can I vote my shares without attending the annual meeting?"

Q: ***How can I vote my shares in person at the annual meeting?***

A: ***Stockholder of Record***. Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to vote your shares in person at the annual meeting, please bring proof of identification. Even if you plan to attend the annual meeting, the Company recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting. See "How can I vote my shares without attending the annual meeting?"

Beneficial Owner. Shares held in street name may be voted in person by you only if you obtain an account statement or letter from your bank, broker or other nominee indicating that you are the beneficial owner of the shares and a legal proxy from the record holder giving you the right to vote the shares. The account statement or letter must show that you were the beneficial owner of shares on April 17, 2013, the record date.

Q: ***How can I vote my shares without attending the annual meeting?***

A: Whether you hold your shares directly as the stockholder of record or beneficially in street name, you may direct your vote ***without attending*** the annual meeting by voting in one of the following manners:

- ***Internet***. Go to www.voteproxy.com and follow the instructions. You will need the control number included on your proxy card or voting instruction form;
- ***Telephone***. Dial 1-800-PROXIES. You will need the control number included on your proxy card or voting instruction form; or
- ***Mail***. Complete, date and sign your proxy card or voting instruction card and mail it using the enclosed, pre-paid envelope.

If you vote on the Internet or by telephone, you do not need to return your proxy card or voting instruction card. Internet and telephone voting for stockholders will be available 24 hours a day, and will close at 11:59 p.m., Eastern Daylight Time, on June 11, 2013.

Q: ***If I am an employee holding shares pursuant to the Employee Stock Purchase Plan, how will my shares be voted?***

A: Employees holding stock acquired through the Employee Stock Purchase Plan will receive a voting instruction card covering all shares held in their individual account from Computershare, the plan record keeper. The voting instruction cards have an earlier return date than proxy cards. The record keeper for the Employee Stock Purchase Plan will vote your shares (i) in accordance with the specific instructions on your returned voting instruction card; or (ii) in its discretion, if you return a signed voting instruction card with no specific voting instructions.

Q: ***What is the quorum requirement for the annual meeting?***

A: A quorum is necessary to hold the annual meeting. A quorum at the annual meeting exists if the holders of a majority of the Company's capital stock issued and outstanding and entitled to vote at the annual meeting are present in person or represented by proxy. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker does not vote on some matter on the proxy card because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Q: ***What happens if I do not give specific voting instructions?***

A: ***Stockholder of Record***. If you are a stockholder of record and you sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the Board of Directors on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual meeting.

Beneficial Owners. If you are a beneficial owner of shares held in street name and do not provide the organization (e.g., broker or bank) that holds your shares in "street name" with specific voting instructions, the organization that holds your shares may generally vote on routine matters (Proposal No. 3 (ratification of auditor)) but cannot vote on non-routine matters (Proposal No. 1 (director elections) and Proposal No. 2 (approval of the material terms of the performance goals under the Omnibus Plan in accordance with Section 162(m) of the Internal Revenue Code)). If the organization that holds your shares does not receive instructions from you on how to vote your shares on Proposals No. 1 and 2, such organization will inform the inspector of election that it does not have the authority to vote on these matters with respect to your shares. This is generally referred to as a "broker non-vote." Therefore, we urge you to give voting instructions to your broker. Shares represented by such broker non-votes will be counted in determining whether there is a quorum. Because broker non-votes are not considered shares entitled to vote, they will have no effect on the outcome of any proposal other than reducing the number of shares present in person or by proxy and entitled to vote from which a majority is calculated.

Q: ***Which proposals are considered "routine" or "non-routine?"***

A: The ratification of the appointment of KPMG as our independent registered public accounting firm for 2013 (Proposal No. 3) is considered a routine matter under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal No. 3.

The election of directors (Proposal No. 1) and the approval of the material terms of the performance goals under the Omnibus Plan in accordance with Section 162(m) of the Internal Revenue Code (Proposal No. 2) are considered non-routine matters under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on Proposal Nos. 1 and 2.

Q: ***What is the voting requirement to approve each of the proposals?***

A: Thirteen director nominees have been nominated for election at the annual meeting. Directors will be elected by a plurality of the votes cast in the election of directors at the annual meeting, either in person or represented by a properly authorized proxy. This means that the thirteen nominees who receive the largest number of "FOR" votes cast will be elected as directors. Stockholders cannot cumulate votes in the election of directors. "Withhold" votes and broker non-votes will not have any effect on the election of directors, except in the case of "withhold" votes to the extent they revoke earlier dated proxies.

The approval of the material terms of the performance goals under the Omnibus Plan in accordance with Section 162(m) of the Internal Revenue Code and the ratification of the appointment of our independent registered public accounting firm require the affirmative vote of a majority of the votes represented at the meeting and entitled to vote on the proposals. In accordance with Delaware law, only votes cast "FOR" a matter constitute affirmative votes. A properly executed proxy marked "abstain" with respect to the approval of the material terms of the performance goals under the Omnibus Plan in accordance with Section 162(m) of the Internal Revenue Code and/or the ratification of the appointment of our independent registered public accounting firm will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, with respect to Proposals Nos. 2 and 3, abstentions will have the same effect as negative votes or votes "AGAINST" that matter. Broker non-votes will have no effect on these items.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Q: Who will count the vote?

A: A representative of American Stock Transfer & Trust Company, LLC will tabulate the votes and act as the inspector of election.

Q: Can I revoke my proxy or change my vote?

A: Yes. You may revoke your proxy or change your voting instructions at any time prior to the vote at the annual meeting by:

- providing written notice of revocation to the Secretary of the Company at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032;
- delivering a valid, later-dated proxy or a later-dated vote on the Internet or by telephone; or
- attending the annual meeting and voting in person.

Please note that your attendance at the annual meeting in person will not cause your previously granted proxy to be revoked unless you vote in person at the annual meeting to revoke your proxy. If you wish to revoke your proxy, you must do so in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the vote is taken. Shares held in street name may be voted in person by you at the annual meeting only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

Q: Who will bear the cost of soliciting votes for the annual meeting?

A: The Board of Directors of the Company is soliciting your proxy to vote your shares of common stock at the annual meeting. KAR Auction Services will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic and facsimile transmission by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. The Company also may reimburse brokerage firms and other persons representing beneficial owners of shares of KAR Auction Services' common stock for their expenses in forwarding solicitation material to such beneficial owners.

Q: I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

A: The Company has adopted a procedure called "householding" which the Securities and Exchange Commission (the "SEC") has approved. Under this procedure, the Company is delivering a single copy of this proxy statement and the Company's Annual Report to multiple stockholders who share the same address unless the Company has received contrary instructions from one or more of the stockholders. This procedure reduces the Company's printing costs, mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, a separate copy of this proxy statement and the Company's Annual Report will be promptly delivered to any stockholder at a shared address to which the Company delivered a single copy of any of these documents. To receive a separate copy of this proxy statement or the Company's Annual

Report, stockholders may write or call the Company's transfer agent at the following address and telephone number: American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219 or 1-800-937-5449. Stockholders who hold shares in street name may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

Q: Can I access the Company's proxy materials and Annual Report electronically?

A: This proxy statement and the Company's Annual Report are available on our website at www.karauctionservices.com. Most stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. If you are a stockholder of record, you can choose this option and save the Company the cost of production and mailing these documents by registering for electronic access of future proxy statements at www.amstock.com. If you hold your KAR Auction Services stock through a bank, broker or other holder of record, you can choose this option and save the Company the cost of production and mailing these documents by registering for electronic access of future proxy statements at www.proxyvote.com.

If you choose to view future proxy statements and annual reports over the Internet, you will receive a notice next year containing the Internet address to access our proxy statement and Annual Report. The notice also will include instructions for voting over the Internet. You will have the opportunity to opt out at any time by following the instructions at the website addresses set forth above. Unless you subsequently elect to opt out, future notices will be available through Internet access. You do not have to re-elect Internet access each year.

Q: How can I obtain a copy of KAR Auction Services' Annual Report on Form 10-K?

A: Copies of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the SEC, are available to stockholders free of charge on KAR Auction Services' website at www.karauctionservices.com or by writing to KAR Auction Services, Inc. Investor Relations, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

Q: Where can I find the voting results of the annual meeting?

A: KAR Auction Services will announce preliminary voting results at the annual meeting and publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the annual meeting.

PROPOSALS TO BE VOTED ON BY KAR AUCTION SERVICES' STOCKHOLDERS

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Directors Elected Annually

Our Board of Directors and KAR LLC have nominated the thirteen individuals named below to stand for election to the Board of Directors at the annual meeting. KAR Auction Services' directors are elected each year by the stockholders at the annual meeting. We do not have a staggered or classified board. Each director's term will last until the 2014 annual meeting of stockholders and until such director's successor is duly elected and qualified, or such director's earlier death, resignation or removal. Directors are elected by a plurality of the votes cast at the annual meeting.

Director Independence

The Board of Directors is responsible for determining the independence of our directors. Under the NYSE listing standards, a director qualifies as independent if the Board of Directors affirmatively determines that the director has no material relationship with us. While the focus of the inquiry is independence from management, the Board is required to broadly consider all relevant facts and circumstances in making an independence determination. Based upon its evaluation, our Board has affirmatively determined that the following directors meet the standards of "independence" established by the NYSE: David J. Ament, Kelly J. Barlow, Thomas J. Carella, Robert M. Finlayson, Peter R. Formanek, Michael B. Goldberg, Sanjeev Mehra, Church M. Moore, Gregory P. Spivy and Jonathan P. Ward. Brian T. Clingen, our Chairman of the Board, James P. Hallett, our CEO, and Thomas C. O'Brien, CEO of Insurance Auto Auctions, Inc. ("IAA"), are not independent directors.

Mr. Barlow is not standing for re-election as a director at the annual meeting. As a result, there will be a vacancy on the Board unless another person is elected to fill the vacancy. Pursuant to the director designation agreement described under "Board Nominations and Director Nomination Process" below, KAR Holdings II, LLC ("KAR LLC") has nominated Ryan M. Birtwell to fill that vacancy. Our Board of Directors has evaluated Mr. Birtwell's independence and has affirmatively determined that, if elected, Mr. Birtwell would meet the standards of "independence" established by the NYSE.

Board Nominations and Director Nomination Process

The Board of Directors is responsible for nominating members for election to the Board of Directors and for filling vacancies on the Board of Directors that may occur between the annual meetings of stockholders. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the Board of Directors for board membership. When formulating its Board of Directors membership recommendations, the Nominating and Corporate Governance Committee may also consider advice and recommendations from others, including stockholders, as it deems appropriate.

Board candidates also are selected based upon various criteria including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board of Directors. Board members are expected to prepare for, attend and participate in all Board of Directors and applicable committee meetings and the Company's annual meetings of stockholders.

In accordance with its charter, the Board of Directors also considers candidates for election as a director of the Company recommended by any stockholder, provided that the recommending stockholder follows the procedures set forth in Section 5 of the Company's Amended and Restated By-Laws for nominations by stockholders of persons to serve as directors, including the requirements of timely notice and certain information to be included in such notice. The Board of Directors generally evaluates such candidates in the same manner by which it evaluates other director candidates considered by the Board of Directors.

In connection with the Company's initial public offering, the Company entered into a director designation agreement that provides for the right of KAR LLC to directly nominate individuals to our Board of Directors. The director designation agreement provides that, for so long as KAR LLC owns more than 50% of our outstanding common stock, KAR LLC will have the right to nominate seven individuals to the Company's Board of Directors at each meeting of stockholders where directors are to be elected. KAR LLC's designees are as follows: David J. Ament, Ryan M. Birtwell, Thomas J. Carella, Michael B. Goldberg, Sanjeev Mehra, Church M. Moore and Gregory P. Spivy.

An employment agreement entered into on February 27, 2012, between the Company and James P. Hallett, the Company's CEO, provides that Mr. Hallett shall be entitled to serve as a member of the Board of Directors for so long as the employment agreement is in effect.

Diversity

The Nominating and Corporate Governance Committee and the Board of Directors believe that diversity along multiple dimensions, including opinions, skills, perspectives, personal and professional experiences and other differentiating characteristics, is an important element of its nomination recommendations. The Nominating and Corporate Governance Committee has not identified any specific minimum qualifications which must be met for a person to be considered as a candidate for director. However, Board candidates are selected based upon various criteria including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board of Directors. Although the Board of Directors does not have a formal diversity policy, the Nominating and Corporate Governance Committee and Board of Directors review these factors, including diversity, in considering candidates for board membership.

Information Regarding the Nominees for Election to the Board of Directors

The following information is furnished with respect to each nominee for election as a director. All of the nominees, other than Mr. Birtwell, currently are directors. If a nominee is unavailable to serve as a director, your proxies will have the authority and discretion to vote for another nominee proposed by the Board of Directors, or the Board of Directors may reduce the number of directors to be elected at the annual meeting. The ages of the nominees are as of the date of the annual meeting, June 12, 2013.

David J. Ament	**Mr. Ament, 38, has been a member of the Board of Directors since April 2007.** Mr. Ament joined Parthenon Capital, a private equity firm, in 2003 and is a Managing Partner in its Boston office. Prior to joining Parthenon, he was a principal at Audax Group, a private equity firm, from 2001 to 2003. Prior to that, Mr. Ament was an investment professional at Apollo Advisors from 1997 to 2001. Mr. Ament serves on the Board of Directors of the following companies: Altegra Health, Inc., Abeo, Inc., ASG Security, Bryant and Stratton College, Eliza Corporation, IWP, Inc. and Triad Isotopes, Inc. ***Mr. Ament is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the private equity industry.***
Ryan M. Birtwell	**Mr. Birtwell, 30, is a nominee for election as a director.** Mr. Birtwell joined ValueAct Capital in 2004 and has been a Partner since 2013. Mr. Birtwell is a holder of the right to use the Chartered Financial Analyst® designation. Mr. Birtwell serves on the Board of Directors of Seitel, Inc. ***Mr. Birtwell is qualified to serve on the Board of Directors because he has significant experience in investment management and financial analysis.***
Thomas J. Carella	**Mr. Carella, 38, has been a member of the Board of Directors since April 2007.** Mr. Carella is a Managing Director of Goldman, Sachs & Co. Mr. Carella joined Goldman Sachs in 1997 and rejoined in 2004 following his graduation from Harvard Business School. Mr. Carella serves on the Board of Directors of Drayer Physical Therapy and HGI Global Holdings, Inc. Mr. Carella previously served as a director of Cequel Communications, LLC from May 2006 to November 2012. ***Mr. Carella is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the private equity industry.***
Brian T. Clingen	**Mr. Clingen, 53, has been the Chairman of the Board of Directors since April 2007. Mr. Clingen serves on our Compensation Committee.** Mr. Clingen served as our Chief Executive Officer from April 2007 to September 2009. Mr. Clingen has served as a Managing Partner of BP Capital Management since 1998. Established in 1998, BP Capital Management manages private equity investments principally in the service and finance sectors. Prior to founding BP Capital Management, Mr. Clingen was the Chief Financial Officer of Universal Outdoor between 1988 and 1996. Kelso & Company invested in Universal Outdoor in 1993. ***Mr. Clingen is qualified to serve on the Board of Directors because he has significant operational and investment experience, including in the automotive services industry.***
Robert M. Finlayson	**Mr. Finlayson, 63, has been a member of the Board of Directors since December 2009. Mr. Finlayson serves as the Chairman of our Audit Committee.** Mr. Finlayson was employed by the accounting firm of Ernst & Young LLP from 1975 through September 2008, when he retired as a partner. During that time, Mr. Finlayson served as the lead partner on a number of Fortune 500 company accounts as well as the accounts of several private equity firms. Mr. Finlayson also held several management positions at Ernst & Young, including leading the firm's private equity practice group and serving as a member of the firm's U.S. Executive Board of Directors, which was responsible for all partner-related matters in the United States. ***Mr. Finlayson is qualified to serve on the Board of Directors and as the Chairman of the Audit Committee as a result of his accounting expertise and business leadership experience.***
Peter R. Formanek	**Mr. Formanek, 69, has been a member of the Board of Directors since December 2009. Mr. Formanek serves on our Audit Committee and our Compensation Committee.** Mr. Formanek has been a private investor since 1994 and has served on several public company boards. Prior to 1994, Mr. Formanek served as the President, Chief Operating Officer and a director of AutoZone, Inc., a retailer of auto parts, from 1987 to 1994. From 1969 to 1987, Mr. Formanek served in various roles for Malone & Hyde, a food wholesaler and specialty retailer. Mr. Formanek previously served as a director of Burger King Holdings, Inc. from September 2003 to October 2010. ***Mr. Formanek is qualified to serve on the Board of Directors because he is a sophisticated investor with significant business leadership experience, including in the automotive industry.***

Michael B. Goldberg	**Mr. Goldberg, 66, has been a member of the Board of Directors since October 2009.** Mr. Goldberg joined Kelso & Company in 1991 and has been Managing Director since 1991. He spent the preceding two years as a Managing Director and co-head of the mergers and acquisitions department at The First Boston Corporation. Mr. Goldberg spent the previous eleven years practicing corporate law in the mergers and acquisitions group of Skadden, Arps, Meagher & Flom, becoming a partner in 1980. He spent the previous five years as an associate at Cravath, Swaine & Moore. Mr. Goldberg serves on the Board of Directors of Cronos Holding Company Ltd., Delphin Shipping LLC and Poseidon Containers Holdings LLC. Mr. Goldberg previously served as a director of RHI Entertainment, Inc. from August 2007 to March 2011, Buckeye GP Holdings L.P. from June 2007 to November 2010. ***Mr. Goldberg is qualified to serve on the Board of Directors because he is a sophisticated investor whose legal background brings valuable board governance experience to our Board of Directors.***
James P. Hallett	**Mr. Hallett, 60, has been a member of the Board of Directors since April 2007 and has been our Chief Executive Officer since September 2009.** Mr. Hallett served as President and Chief Executive Officer of ADESA, Inc. ("ADESA") from April 2007 to September 2009. Mr. Hallett served as: Executive Vice President of ADESA, Inc. from May 2004 to May 2005; President of ADESA Corporation, LLC from March 2004 to May 2005; President of ADESA Corporation between August 1996 and October 2001 and again between January 2003 and March 2004; Chief Executive Officer of ADESA Corporation from August 1996 to July 2003; ADESA Corporation's Chairman from October 2001 to July 2003; Chairman, President and Chief Executive Officer of ALLETE Automotive Services, Inc. from January 2001 to January 2003 and Executive Vice President from August 1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafter served as President of the Columbus Fair Auto Auction until April 2007. ***Mr. Hallett is qualified to serve on the Board of Directors due to his significant business leadership experience and extensive knowledge of the automotive auction industry.***
Sanjeev Mehra	**Mr. Mehra, 54, has been a member of the Board of Directors since April 2007. Mr. Mehra serves on our Compensation Committee and as the Chairman of our Nominating and Corporate Governance Committee.** Mr. Mehra has served as a Managing Director of Goldman, Sachs & Co. in its Principal Investment Area since 1990. Mr. Mehra joined Goldman Sachs in 1986. Mr. Mehra serves on the Board of Directors of ARAMARK Corporation, Interline Brands, Inc., Max India Ltd., Sigma Electric, SunGard Data Systems, Inc. and TVS Logistics. Mr. Mehra previously served as a director and Chairman of the Board of Hawker Beechcraft, Inc. from March 2007 to February 2013. In addition, Mr. Mehra previously served as a director of First Aviation Services, Inc. from May 2008 to December 2012, Adam Aircraft Industries, Inc. from April 2003 to February 2008, Burger King Holdings, Inc. from December 2002 to October 2010, Madison River Telephone Company from October 1996 to April 2007 and Nalco Holding Company from November 2003 to May 2007. ***Mr. Mehra is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the financial sector and has public company board experience.***
Church M. Moore	**Mr. Moore, 40, has been a member of the Board of Directors since April 2007. Mr. Moore serves on our Nominating and Corporate Governance Committee and as the Chairman of our Compensation Committee.** Mr. Moore joined Kelso & Company in 1998 and has been a Managing Director since 2007. For the preceding year, Mr. Moore was an associate at Investcorp International, Inc. For the previous three years, he was an analyst in the corporate finance group at BT Securities Corporation. Mr. Moore serves on the Board of Directors of Ellis Communications Group, LLC and Truck-Lite Co., LLC. ***Mr. Moore is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the private equity industry.***

Thomas C. O'Brien	**Mr. O'Brien, 59, has been a member of the Board of Directors since April 2007 and has been the Chief Executive Officer of IAA since November 2000.** Prior to joining IAA, Mr. O'Brien served as President of Thomas O'Brien & Associates from 1999 to 2000, Executive Vice President of Safelite Glass Corporation from 1998 to 1999, Executive Vice President of Vistar, Inc. from 1996 to 1997 and President of U.S.A. Glass, Inc. from 1992 to 1996. Mr. O'Brien serves on the Board of Directors of CoreLogic, Inc. ***Mr. O'Brien is qualified to serve on the Board of Directors due to his significant business leadership experience, including experience in businesses that provide services to the automotive industry.***
Gregory P. Spivy	**Mr. Spivy, 44, has been a member of the Board of Directors since April 2007. Mr. Spivy serves on our Compensation Committee.** Mr. Spivy joined ValueAct Capital in 2004 and has been a Partner since 2004. Prior to joining ValueAct Capital, Mr. Spivy worked with Gryphon Investors, a private equity fund, from 2002 to 2004. Previously, Mr. Spivy was a Managing Director at Fremont Partners from 1995 to 2000. Prior to joining Fremont Partners, Mr. Spivy was a director with The Bridgeford Group, and began his career in the mergers and acquisitions department of Lehman Brothers. Mr. Spivy serves as Chairman of the Board of Directors of Seitel, Inc. Mr. Spivy previously served as a director of MDS, Inc. from April 2008 to May 2010. ***Mr. Spivy is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the financial sector.***
Jonathan P. Ward	**Mr. Ward, 59, has been a member of the Board of Directors since December 2009. Mr. Ward serves on our Audit Committee and our Nominating and Corporate Governance Committee.** Mr. Ward has served as an Operating Partner of Kohlberg & Co., an investment firm, since July 2009. Mr. Ward served as the former Chairman of the Chicago office of Lazard Ltd., an investment banking firm, and Managing Director of Lazard Freres & Co., LLC from November 2006 to June 2009. Mr. Ward served as Chairman and Chief Executive Officer of The ServiceMaster Company, a national service company, from 2002 to 2006, and President and Chief Executive Officer of ServiceMaster from 2001 to 2002. Mr. Ward was President and Chief Operating Officer of RR Donnelley & Sons Company, a commercial printing company, from 1997 to 2001. Mr. Ward serves on the Board of Directors of Hub Group, Inc., Standard Parking Corporation and The Hillshire Brands Company. Mr. Ward previously served as a director of United Stationers, Inc. from July 2011 to June 2012. ***Mr. Ward is qualified to serve on the Board of Directors as a result of his financial expertise and business leadership experience and has public company board experience.***

KAR AUCTION SERVICES' BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE FOREGOING THIRTEEN NOMINEES TO THE BOARD OF DIRECTORS.

PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED "FOR" THE ELECTION OF EACH OF THE DIRECTOR NOMINEES NAMED IN THIS PROXY STATEMENT AND THE PROXY CARD UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

BOARD OF DIRECTORS STRUCTURE AND CORPORATE GOVERNANCE

Role of the Board of Directors

The Company's business and affairs are managed under the direction of the Board of Directors, which is the Company's ultimate decision-making body, except with respect to those matters reserved to the Company's stockholders. The Board of Directors, among other things, establishes the Company's overall corporate policies, evaluates the Company's Chief Executive Officer and the senior leadership team and oversees senior management. The Board of Directors also oversees the Company's business strategy and planning, as well as the performance of management in executing the Company's business strategy, assessing and managing risks and managing the Company's day-to-day operations.

Board Leadership

Currently, KAR Auction Services separates the roles of Chairman of the Board of Directors and Chief Executive Officer. Separating these roles allows our Chief Executive Officer to focus on the day-to-day management of our business and our Chairman of the Board of Directors to lead the Board of Directors and focus on providing advice and general oversight of management. Given the time and effort that is required of each of these positions, the Company currently believes it is best to separate these roles. However, neither the Company's Amended and Restated By-Laws nor the Company's Corporate Governance Guidelines requires that the Company separate these roles and the Board of Directors does not have a policy on whether the same person should serve as both the Chief Executive Officer and Chairman of the Board of Directors, or if the roles must remain separate. The Board of Directors believes that it should have the flexibility to make these determinations from time to time in the way that it believes best to provide appropriate leadership for the Company under then-existing circumstances.

Board of Directors Meetings and Attendance

The Board of Directors held 13 meetings during 2012. All of the directors attended at least 75% of the meetings of the Board of Directors and Board committees on which they served during 2012. As stated in our Corporate Governance Guidelines, each director is expected to attend all annual meetings of stockholders. Last year's annual meeting of stockholders was attended, either in person or by telephone, by substantially all of the directors.

Committees of the Board of Directors

In 2012, the Board of Directors maintained three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. A description of each Board committee is set forth below.

Audit Committee. Our Audit Committee assists the Board of Directors in its oversight of the integrity of our financial statements, our independent registered public accounting firm's qualifications and independence and the performance of our independent registered public accounting firm. The Audit Committee reviews the audit plans and findings of our independent registered public accounting firm and our internal audit team and tracks management's corrective action plans where necessary; reviews our financial statements, including any significant financial items and changes in accounting policies or practices, with our senior management and independent registered public accounting firm; reviews our financial risk and control procedures, compliance programs and significant tax, legal and regulatory matters; and has the sole discretion to appoint annually our independent registered public accounting firm, evaluate its independence and performance and set clear hiring policies for employees or former employees of the independent registered public accounting firm. The Audit Committee held five meetings during 2012. Messrs. Finlayson, Formanek and Ward, who comprise the Audit Committee, are "financially literate" under the rules of the New York Stock Exchange (the "NYSE"). Mr. Finlayson serves as Chairman of the Audit Committee and has been designated as our "audit committee financial expert" as that term is defined by the SEC. In addition, the Board of Directors has determined that each of the members of the Audit Committee meets the standards of "independence" established by the NYSE and is "independent" under the independence standards for audit committee members adopted by the SEC.

Compensation Committee. The Compensation Committee reviews and recommends policies relating to compensation and benefits of our officers and employees. The Compensation Committee establishes, reviews and approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives, and approves the compensation of these officers based on such evaluations. The Compensation Committee also administers the issuance of stock options and other awards under our equity plans. The Compensation Committee held four meetings during 2012. The Compensation

Committee is comprised of Messrs. Clingen, Formanek, Mehra, Moore and Spivy. Mr. Moore serves as Chairman of the Compensation Committee. All of the members of the Compensation Committee are independent under the NYSE rules, except for Mr. Clingen. The Compensation Committee did not retain a compensation consultant in 2012.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board of Directors regarding candidates for directorships and the size and composition of the Board of Directors. In addition, the Nominating and Corporate Governance Committee is responsible for overseeing our Corporate Governance Guidelines and reporting and making recommendations to the Board of Directors concerning governance matters. The Nominating and Corporate Governance Committee held one meeting during 2012. The Nominating and Corporate Governance Committee is comprised of Messrs. Barlow, Mehra, Moore and Ward. Mr. Mehra serves as Chairman of the Nominating and Corporate Governance Committee. All of the members of the Nominating and Corporate Governance Committee are independent under the NYSE rules.

Each of our committees operates pursuant to a written charter. Copies of the committee charters are available on KAR Auction Services' website at www.karauctionservices.com on the "Investor Relations" page under the link "Corporate Governance." The information on our website is not part of this proxy statement and is not deemed incorporated by reference into this proxy statement or any other public filing made with the SEC.

Board of Directors' Oversight of Risk

Our management is responsible for the management and assessment of risk at the Company, including communication of the most material risks to the Board of Directors and its committees. The Board of Directors provides oversight with respect to risk practices implemented by management, except for the oversight of risks that have been specifically delegated to a committee of the Board of Directors. Even when the oversight of a specific area of risk has been delegated to a committee, the Board of Directors may maintain oversight over such risks through the receipt of reports from the committee chairpersons to the Board of Directors at each regularly scheduled Board of Directors meeting. The Board of Directors and committee reviews occur principally through the receipt of regular reports from management to the Board of Directors on these areas of risk, and discussions with management regarding risk assessment and risk management.

At its regularly scheduled meetings, the Board of Directors generally receives a number of reports which include information relating to risks faced by the Company. The Company's Chief Financial Officer provides a report on the Company's results of operations, its liquidity position, including an analysis of prospective sources and uses of funds, and the implications to the Company's debt covenants and credit rating, if any. The Chief Executive Officer of each primary business unit provides an operational report, which includes information relating to strategic, operational and competitive risks. Finally, the Company's General Counsel provides a privileged report which provides information regarding the status of the Company's material litigation and related matters, including environmental updates and the Company's continuing compliance with applicable laws and regulations. At each regularly scheduled Board of Directors meeting, the Board of Directors also receives reports from committee chairpersons, which may include a discussion of risks initially overseen by the committees for discussion and input from the Board of Directors. As noted above, in addition to these regular reports, the Board of Directors receives reports on specific areas of risk from time to time, such as regulatory, cyclical or other risks that are not covered in the regular reports given to the Board of Directors and described above.

The Board of Directors' leadership structure, through its committees, also supports its role in risk oversight. The Audit Committee maintains initial oversight over risks related to the integrity of the Company's financial statements; internal controls over financial reporting and disclosure controls and procedures (including the performance of the Company's internal audit function); the performance of the independent auditor; and oversees the Company's responses to ethics issues arising from the Company's whistleblower hotline. The Company's Compensation Committee maintains oversight over risks related to the Company's compensation practices. The Nominating and Corporate Governance Committee monitors potential risks to the effectiveness of the Board of Directors, notably director succession, composition of the Board of Directors and the principal policies that guide the Company's governance.

Corporate Governance Documents

The Board of Directors has adopted the following corporate governance documents:

Document	Purpose/Application
Code of Business Conduct and Ethics	Applies to all of the Company's employees, officers and directors, including those officers responsible for financial reporting.
Code of Ethics for Principal Executive and Senior Financial Officers	Applies to the Company's principal executive officer, principal financial and accounting officer and such other persons who are designated by the Board of Directors.
Corporate Governance Guidelines	Contains general principles regarding the functions of the Board of Directors and its committees.
Committee Charters	Applies to the following Board committees, as applicable: Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

We expect that any amendments to the codes of ethics, or any waivers of their requirements for executive officers and directors, will be disclosed on the Company's website. The foregoing documents are available at www.karauctionservices.com under the "Investor Relations" link on the "Corporate Governance" page and in print to any stockholder who requests them. Requests should be made to KAR Auction Services, Inc., Investor Relations, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032. The information on our website is not part of this proxy statement and is not deemed incorporated by reference into this proxy statement or any other public filing made with the SEC.

"Controlled Company" Exemption

KAR LLC controls a majority of the voting power of our outstanding common stock. The Equity Sponsors and management indirectly own through their investment in KAR LLC approximately 56% of our common stock. As a result, we are a "controlled company" within the meaning of the NYSE corporate governance standards. Under the NYSE 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 NYSE corporate governance standards, 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.

We utilize certain of these exemptions. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended December 31, 2012, the Compensation Committee was comprised of Church M. Moore (Chairman), Brian T. Clingen, Peter R. Formanek, Sanjeev Mehra and Gregory P. Spivy. None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or our Compensation Committee. None of the members of the Compensation Committee is now or was previously an officer or employee of the Company, other than Mr. Clingen who is the Chairman of the Board of Directors and served as the Company's Chief Executive Officer from April 2007 to September 2009. See "Certain Related Party Relationships" for a description of certain relationships between the Company and members of the Compensation Committee or their affiliated companies.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires KAR Auction Services' directors and executive officers and persons who own more than 10% of the issued and outstanding shares of the Company's common stock to file reports of initial ownership of common stock and other equity securities and subsequent changes in that ownership with the SEC and the NYSE. Based solely on a review of such reports and written representations from the directors and executive officers, the Company believes that all such filing requirements were met during 2012, other than one late Form 4 filed on April 5, 2013 by Jonathan P. Ward reporting phantom shares received in connection the reinvestment of dividend equivalents pursuant to the terms of the KAR Auction Services, Inc. Directors Deferred Compensation Plan.

Director Compensation

We use a combination of cash and stock-based incentive compensation to attract and retain independent, qualified candidates to serve on the Board of Directors. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties as well as the skill level we require of members of our Board of Directors.

Cash and Stock Retainers

Cash. Members of the Board of Directors who are not our employees nor employed by Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. or Parthenon Investors II, L.P. and their respective affiliates (collectively, the "Equity Sponsors"), which collectively own through KAR LLC a majority of the common stock of KAR Auction Services, are entitled to receive an annual cash retainer of $50,000. Such directors may elect to receive their annual cash retainer in common stock. The Chairperson of the Audit Committee receives an additional cash retainer of $10,000. One-fourth of the annual cash retainer is paid at the end of each quarter, provided that the director served as a director in such fiscal quarter. All of our directors are reimbursed for reasonable expenses incurred in connection with attending Board of Directors meetings and committee meetings.

Stock. In addition to the annual cash compensation, directors who are not employed by us or the Equity Sponsors receive an annual stock retainer of $75,000 of our common stock in the form of restricted stock. Pursuant to our Policy on Granting Equity Awards, unless specifically provided otherwise by the Compensation Committee or the Board of Directors, annual grants for directors are effective on the date of the annual meeting at which the director was elected or re-elected. One-fourth of the annual restricted stock grant vests quarterly following the date of the grant. The number of shares of our common stock received is based on the value of the shares on the date of the restricted stock grant.

Directors Deferred Compensation Plan

Our Board of Directors adopted the KAR Auction Services, Inc. Directors Deferred Compensation Plan (the "Director Deferred Compensation Plan") in December 2009. Pursuant to the terms of the Director Deferred Compensation Plan, each director who is not employed by us or the Equity Sponsors may elect to defer the receipt of his cash director fees into a pre-tax interest-bearing deferred compensation account, which account accrues interest (credited to the account quarterly) as described in the Director Deferred Compensation Plan. Directors also may choose to receive all or a portion of their annual stock retainer in the form of a deferred share account. The plan provides that the amount of cash in a director's deferred cash account, plus a number of shares of common stock equal to the number of shares in the director's deferred share account, will be delivered to a director within 60 days following the date of the director's departure from the Board of Directors, with cash being paid in lieu of any fractional shares.

Director Compensation Paid in 2012

The following table provides information regarding the compensation paid to our directors.

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Total
Robert M. Finlayson	$60,000	$75,000	$135,000
Peter R. Formanek	$50,000(3)	$75,000	$125,000
Jonathan P. Ward	$50,000	$75,000(4)	$125,000

(1) The amounts represent the $50,000 annual cash retainer paid to each director who is not employed by the Company or one of our Equity Sponsors, plus an additional $10,000 paid to Mr. Finlayson for serving as the Chairman of the Audit Committee.

(2) The amounts represent the aggregate grant date fair value, computed in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718"), of 4,778 shares of restricted stock awarded to each director who is not employed by the Company or one of our Equity Sponsors as an annual stock retainer for the period of May 2012 through June 2013.

(3) Mr. Formanek elected to receive his annual cash retainer in shares of the Company's common stock.

(4) Mr. Ward elected to receive his annual stock retainer in a deferred share account pursuant to the Director Deferred Compensation Plan.

Directors that are employed by the Company or the Equity Sponsors are not entitled to receive any fees for serving as a member of our Board of Directors. Mr. Clingen served as Chairman of the Board of Directors, which is also an executive officer position, during the last fiscal year and received a salary for that year solely resulting from holding such officer position. In 2012, Mr. Clingen elected to not receive a bonus payout from the Company. Mr. Clingen is not a named executive officer and did not receive any additional compensation for services provided as Chairman of the Board in 2012. Mr. Clingen's compensation in 2012 as an executive officer was approved by the Compensation Committee of the Board of Directors.

Stock Ownership

The following table sets forth information regarding the number of shares of our common stock held by each director who is not employed by the Company or one of our Equity Sponsors as of the record date, April 17, 2013:

Name	Shares of Common Stock
Robert M. Finlayson	16,237(1)
Peter R. Formanek	23,050(1)
Jonathan P. Ward	16,405(1)(2)

(1) 4,778 of these shares are shares of restricted stock that were granted pursuant to the Omnibus Plan and one-fourth of the grant vests every three months from the date of grant, May 16, 2012, and such grant is subject to forfeiture until vested.

(2) 8,833 of these shares are phantom stock which is deferred in Mr. Ward's account in the Director Deferred Compensation Plan and will be settled for shares of KAR common stock on a one-for-one basis.

Communications with the Board of Directors

Any interested parties desiring to communicate with the Chairman of the Board of Directors or any of the independent directors regarding the Company may directly contact such directors by delivering such correspondence to the Company's General Counsel at KAR Auction Services, Inc., 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

The Audit Committee of the Board of Directors has established procedures for employees, stockholders and others to submit confidential and anonymous reports regarding accounting, internal accounting controls, auditing or any other matters.

Executive Sessions

The independent directors of the Company meet in executive session at regularly scheduled Board of Directors meetings, if needed, and the members of the Audit Committee generally meet in executive session at each regularly scheduled, in person Audit Committee meeting. The Company's Corporate Governance Guidelines state that the Chairman of the Board of Directors, if an independent director, or the lead independent director shall preside at such executive sessions, or in such director's absence, another independent director designated by the Chairman of the Board of Directors or the lead independent director, as applicable, shall preside at such executive sessions. Our Chairman of the Board is not an independent director and we currently do not have a designated lead director. Until such time as the Board of Directors appoints a lead independent director, for all executive sessions of the non-employee or independent directors, the independent directors will rotate as the presiding director.

PROPOSAL NO. 2
TO APPROVE THE MATERIAL TERMS OF THE PERFORMANCE GOALS UNDER THE KAR AUCTION SERVICES, INC. 2009 OMNIBUS STOCK AND INCENTIVE PLAN IN ACCORDANCE WITH SECTION 162(M) OF THE INTERNAL REVENUE CODE

We are asking our stockholders to approve the material terms for performance-based awards under the Omnibus Plan in order to permit certain awards under the Omnibus Plan to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended ("Section 162(m)"). Approval of this proposal requires the affirmative vote of the majority of shares present in person or represented by proxy at the annual meeting and entitled to vote. We are not seeking approval of additional shares under or any amendment to the Omnibus Plan.

Background

Section 162(m) generally limits a corporation's federal tax deduction for compensation paid to the chief executive officer and the three other most highly compensated officers other than the chief financial officer (the "Covered Employees") to $1 million. This deduction limit does not apply to qualifying performance-based compensation. Compensation can qualify as performance-based only if the material terms of the performance goals are disclosed to and approved by the company's stockholders before the compensation is paid and other requirements are satisfied.

Our Board of Directors adopted the Omnibus Plan on December 10, 2009, prior to our initial public offering, and recently amended the Omnibus Plan on April 19, 2013 to make certain immaterial revisions and revisions necessary to comply with Section 162(m). Plans adopted prior to an initial public offering, such as the Omnibus Plan, generally have the benefit of a reliance period under Section 162(m) following the initial public offering, during which compensation paid to Covered Employees is not subject to the $1 million deduction limit described above. The material terms of the plan for Section 162(m) purposes—(i) the employees eligible to receive compensation; (ii) a description of the business criteria on which the performance goals are based; and (iii) award limitations under the plan—must be approved by stockholders no later than the first stockholder meeting that occurs after three calendar years have elapsed since the year in which the initial public offering occurred.

Because the 2013 annual meeting is the first stockholder meeting occurring after the three-year period following the Company's initial public offering, we are asking our stockholders to approve the material terms of the plan for Section 162(m) purposes in order to grant awards under the Omnibus Plan that may qualify for the performance-based compensation exception to Section 162(m). If this proposal is not approved by our stockholders, we will not be able to grant awards under the Omnibus Plan that are designed to qualify for the performance-based compensation exception to Section 162(m) and we may not be able to take a tax deduction for portions of awards granted to our Covered Employees.

The following description addresses the limited aspects of the Omnibus Plan described above. This description is qualified in its entirety by the full text of the Omnibus Plan, which is attached as Appendix A to this proxy statement.

Eligible Participants

The employees, directors and independent contractors and consultants of the Company and its affiliates who are chosen by the Compensation Committee are eligible to receive awards under the Omnibus Plan. As of March 31, 2013, there were approximately 12,184 employees, 13 directors and 450 independent contractors and consultants of the Company and its affiliates.

Awards

Under the Omnibus Plan, the Compensation Committee is authorized to grant options, restricted shares, share appreciation rights ("SARs"), other share-based awards or cash-based awards, each of which may be made subject to the achievement of specified performance goals established by the Compensation Committee.

Award Limitations

The aggregate awards granted during any calendar year to any single individual shall not exceed (i) 600,000 shares subject to options or SARs; (ii) 300,000 shares subject to restricted shares or other share-based awards; and (iii) $5,000,000 with respect to cash-based awards. The exercise price applicable to option and SAR grants is equal to the fair market value of a share of the Company's common stock on the applicable grant date, generally determined based on the closing sale price on the New York Stock Exchange on the grant date. No more than 6,492,683 shares of our common stock, in the aggregate, may be issued pursuant to awards under the Omnibus Plan.

Performance Goals

Awards under the Omnibus Plan to a Covered Employee may be made subject to the attainment of Performance Goals relating to one or more of the following business criteria within the meaning of Section 162(m): (i) earnings, including one or more of operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, adjusted EBITDA, economic earnings, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xi) implementation or completion of critical projects or processes; (xii) cumulative earnings per share growth; (xiii) operating margin or profit margin; (xiv) cost targets, reductions and savings, productivity and efficiencies; (xv) strategic business criteria, consisting of one or more objectively determinable objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (xvi) objectively determinable personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; and (xvii) any combination of, or a specified increase in, any of the foregoing.

Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company or affiliate thereof, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Compensation Committee. The Performance Goals may include a threshold level of performance below which no payment shall be made (or no vesting shall occur), levels of performance at which specified payments shall be made (or specified vesting shall occur), and a maximum level of performance above which no additional payment shall be made (or at which full vesting shall occur). Each of the foregoing Performance Goals shall be subject to certification by the Compensation Committee. The Compensation Committee has the authority to specify reasonable definitions for any Performance Goals it uses and the definitions may provide for equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any affiliate thereof or the financial statements of the Company or any affiliate thereof, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles (in each case, to the extent not inconsistent with Section 162(m), if applicable).

New Plan Benefits

The Compensation Committee has established the 2013 Annual Incentive Plan for the Company's executive officers as a cash-based award under the Omnibus Plan. No decisions have been made on the amount and type of other performance-based awards that are to be made under the Omnibus Plan to participants in the future. The following table sets forth certain information relating to the amount of the 2013 target bonus that would be payable under the cash-based award to the Company's named executive officers and executive officers and employees. No amounts have been included relating to other performance-based awards as the amounts of any such awards are not determinable at this time.

Name and Position	Target Dollar Value
James Hallett CEO	$832,320
Eric Loughmiller CFO	$325,393
Thomas Caruso CEO and President of ADESA	$510,000
Thomas O'Brien CEO of IAA	$511,801
Donald Gottwald CEO and President of AFC	$424,483
Executive Officers as a Group	$4,117,467
Non-Executive Directors as a Group	N/A
Non-Executive Officers as a Group	$30,356,290

KAR AUCTION SERVICES' BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE GOALS UNDER THE KAR AUCTION SERVICES, INC. 2009 OMNIBUS STOCK AND INCENTIVE PLAN IN ACCORDANCE WITH SECTION 162(M) OF THE INTERNAL REVENUE CODE.

PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED "FOR" PROPOSAL NO. 2 UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

PROPOSAL NO. 3
RATIFICATION OF INDEPENDENT AUDITORS

Proposal

The Audit Committee has appointed KPMG to serve as KAR Auction Services' independent registered public accounting firm for its fiscal year ending December 31, 2013. The Audit Committee and the Board of Directors seek to have the stockholders ratify the Audit Committee's appointment of KPMG, which has served as KAR Auction Services' independent registered public accounting firm since 2006. Although KAR Auction Services is not required to seek stockholder approval of this appointment, the Board of Directors believes it to be sound corporate governance to do so. If the appointment of KPMG is not ratified by the stockholders, the Audit Committee may appoint another independent registered public accounting firm or may decide to maintain its appointment of KPMG. Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the majority of shares present in person or represented by proxy at the annual meeting and entitled to vote.

Representatives of KPMG will be present at the annual meeting and will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

KAR AUCTION SERVICES' BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2013.

PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED "FOR" PROPOSAL NO. 3 UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

Report of the Audit Committee

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee consists of directors who have been determined by the Board of Directors to be independent of the Company as prescribed by the NYSE and other regulators. The Company's management has the primary responsibility for the financial statements and for the reporting process, including the establishment and maintenance of the system of internal control over financial reporting. The Company's independent registered public accounting firm is responsible for auditing the financial statements prepared by management, expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, and auditing the Company's internal control over financial reporting and expressing an opinion thereon. In this context, the Audit Committee has met and held discussions with management and KPMG, the Company's independent registered public accounting firm, regarding the fair and complete presentation of the Company's financial statements and the assessment of the Company's internal control over financial reporting.

The Audit Committee has discussed with KPMG matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards,* Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board (the "PCAOB") in Rule 3200T, and has reviewed and discussed KPMG's independence from the Company and its management. As part of that review, the Audit Committee has received the written disclosures and the letter required by applicable requirements of the PCAOB regarding KPMG's communications with the Audit Committee concerning independence, and the Audit Committee has discussed KPMG's independence from the Company. The Audit Committee also has considered whether KPMG's provision of non-audit services to the Company is compatible with the auditor's independence. The Audit Committee has concluded that KPMG is independent from the Company and its management.

The Audit Committee meets with the Chief Financial Officer, the Vice President of Internal Audit and representatives of KPMG, in regular and executive sessions, to discuss the audited financial statements, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting and compliance programs.

In reliance on the reviews and discussions referred to above, the Audit Committee has recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, for filing with the SEC.

The Audit Committee
Robert M. Finlayson (Chairman)
Peter R. Formanek
Jonathan P. Ward

Fees Paid to KPMG

The following table sets forth the aggregate fees charged to KAR Auction Services by KPMG for audit services rendered in connection with the audit of our consolidated financial statements and reports for 2012 and 2011 and for other services rendered during 2012 and 2011 to KAR Auction Services and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services:

Fee Category	2012	2011
Audit Fees(1)	$2,089,500	$2,086,500
Audit-Related Fees(2)	100,500	40,000
Tax Fees(3)	37,222	—
All Other Fees(4)	—	—
Total Fees	**$2,227,222**	**$2,126,500**

(1) ***Audit Fees:*** Consist of fees for professional services rendered for the audit of our consolidated financial statements, review of the interim condensed consolidated financial statements included in the Company's quarterly reports, the audit of our internal control over financial reporting and services that are normally provided by independent auditors in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation.

(2) ***Audit-Related Fees:*** Consist principally of professional services rendered with respect to our registration statements filed on Form S-3 and Form S-8. Also includes professional services rendered in connection with the audit of our 401(k) benefit plan and certain procedures in connection with due diligence.

(3) ***Tax Fees:*** Consist of fees for various tax planning projects.

(4) ***All Other Fees:*** There were no fees billed for services not included above for 2012 and 2011.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

KAR Auction Services' independent auditor fee pre-approval policy provides for an annual process through which the Audit Committee evaluates the nature and scope of the audit prior to the commencement of the audit. The Audit Committee also evaluates audit-related, tax and other services that are proposed, along with the anticipated cost of such services. The Audit Committee reviews schedules of specific services to be provided. If other services are provided outside of this annual process, under the policy they may be (i) pre-approved by the Audit Committee at a regularly scheduled meeting; or (ii) by the Chairman of the Audit Committee, acting between meetings and reporting back to the Audit Committee at the next scheduled meeting. All audit, audit-related and tax services described above were approved by the Audit Committee before such services were rendered.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The following discussion and analysis of our compensation program for named executive officers should be read in conjunction with the tables and text elsewhere in this proxy statement that describe the compensation awarded to, earned by, and paid to the named executive officers.

Our named executive officers for the last completed fiscal year were (i) our principal executive officer, or PEO; (ii) our principal financial officer, or PFO; and (iii) the three most highly compensated executive officers (other than the PEO and the PFO) who were serving as executive officers at the end of the last completed fiscal year. The following persons were our named executive officers for the period covered by this compensation discussion and analysis:

- James Hallett, Chief Executive Officer (PEO) of KAR Auction Services;
- Eric Loughmiller, Executive Vice President and Chief Financial Officer (PFO) of KAR Auction Services;
- Thomas Caruso, Chief Executive Officer and President of ADESA;
- Thomas O'Brien, Chief Executive Officer of IAA; and
- Donald Gottwald, Chief Executive Officer and President of AFC.

Compensation Philosophy and Objectives

We believe that the compensation of named executive officers should be (i) closely aligned with our performance on both a short-term and long-term basis; (ii) linked to specific, measurable results intended to create value for stockholders; and (iii) competitive in attracting and retaining key executive talent in the vehicle remarketing and auto finance industry. Each of the compensation programs that we have developed and implemented is intended to satisfy one or more of the following specific objectives:

- motivate and focus our executive officers through incentive compensation programs directly tied to our financial results;
- support a one-company culture and encourage synergies between all business units by aligning rewards with long-term overall Company performance and stockholder value;
- provide a significant percentage of total compensation through variable pay based on pre-established goals and objectives;
- enhance our ability to attract and retain skilled and experienced executive officers;
- align the interests of our executive officers with the interests of our stockholders so that they manage from the perspective of owners with an equity stake in the Company; and
- provide rewards commensurate with performance and with competitive market practices.

The Role of the Compensation Committee and the Executive Officers in Determining Executive Compensation

Composition of the Compensation Committee. The Compensation Committee of our Board of Directors is comprised of Church M. Moore (Chairman), Brian T. Clingen, Peter R. Formanek, Sanjeev Mehra and Gregory P. Spivy. Messrs. Mehra, Moore and Spivy are directors who were appointed by KAR LLC pursuant to a director designation agreement between KAR Auction Services and KAR LLC.

Role of the Compensation Committee. The Compensation Committee has primary responsibility for all compensation decisions relating to our named executive officers. The Compensation Committee reviews the aggregate level of our executive compensation, as well as the mix of elements used to compensate our named executive officers on an annual basis. In light of the unique mix of businesses that comprise KAR Auction Services and the lack of directly comparable public companies, the Compensation Committee has not identified a specific peer group of companies for comparative purposes and does not formally engage in benchmarking of compensation. Further, the Compensation Committee has not engaged a compensation consultant to assist in the annual review of our compensation practices or the development of compensation programs for our named executive officers, though the Compensation Committee has the authority to do so if it deems that such assistance is necessary or would otherwise be beneficial.

Role of the Executive Officers. Mr. Hallett regularly participates in meetings of the Compensation Committee at which compensation actions involving our named executive officers are discussed. Mr. Hallett assists the Compensation Committee by making recommendations regarding compensation actions relating to the executive officers other than himself. Mr. Hallett and Mr. Clingen each recuse themselves and do not participate in any portion of any meeting of the Compensation Committee at which their compensation is discussed.

Elements Used to Achieve Compensation Philosophy and Objectives

Components of Executive Compensation for 2012

The Compensation Committee has established a total compensation and benefits program for our named executive officers that consist of the following:

- base salary;
- annual incentive opportunity;
- long-term incentive opportunity;
- retirement, health and welfare benefits; and
- limited perquisites and personal benefits.

Base Salary

General. Base salary is the fixed component of total annual cash compensation and is intended to reward the named executive officers for their past performance, offer security to the executive officers and facilitate the attraction and retention of a skilled and experienced executive management team. The Compensation Committee reviews base salaries for our named executive officers annually and as it deems necessary and appropriate in connection with any promotion or other change in responsibility of a named executive officer.

Annual salary levels for our named executive officers are based upon various factors, including the individual’s performance, budget guidelines, experience, business unit responsibilities, tenure in the particular position and the terms of any employment agreements with the named executive officers. In addition, the Compensation Committee also considers the amount and relative percentage of total compensation that is derived from base salary when setting the compensation of our executive officers. The Compensation Committee has not, however, established a policy or a specific formula for such purpose.

In view of the wide variety of factors considered by the Compensation Committee in connection with determining the base salary of each of our named executive officers, the Compensation Committee has not attempted to rank or otherwise assign relative weights to the factors that it considers. The Compensation Committee considers all the factors as a whole in reaching its determination. The Compensation Committee collectively makes its determination with respect to base salaries based on the conclusions reached by its members, in light of the factors that each of them considered appropriate.

Base Salaries for 2012. At its February 9, 2012 meeting, the Compensation Committee reviewed the 2012 base salaries of each of our named executive officers. Based upon the recommendation of management, the Compensation Committee concluded that no increases in the base salaries of the named executive officers would be approved at that time.

Base Salaries for 2013. At its February 20, 2013 meeting, the Compensation Committee reviewed the base salaries of each of our named executive officers for 2013. After considering multiple factors, including, without limitation, the performance of the Company and the contribution of each named executive officer, the Compensation Committee approved a 2% increase in the base salaries for Messrs. Hallett, Loughmiller, Caruso, O'Brien and Gottwald. The amount of the increase was consistent with the overall 2% merit increase pool established for the Company. The increases resulted in the following salaries, which were retroactive to January 1, 2013: Mr. Hallett—$832,320; Mr. Loughmiller—$433,857; Mr. Caruso—$510,000; Mr. O'Brien—$511,801; and Mr. Gottwald—$424,483.

Annual Cash Incentive Plans

General. We provide annual cash incentive opportunities to our named executive officers in order to:

- align annual incentives with overall Company financial results;
- align annual incentives, where appropriate, with business unit or division financial results; and
- align the interests of our executives with the interests of our stockholders.

Annual cash incentive opportunities are established for each named executive officer by the Compensation Committee based upon a number of factors including the job responsibilities of such executive and internal equity among the named executive officers. Consistent with our compensation philosophy and objectives, the Compensation Committee sets annual incentive bonus targets in amounts which are intended to encourage the achievement of certain levels of performance and provide a significant portion of each named executive officer's compensation through variable pay based upon pre-established goals and objectives. Generally, named executive officers with greater job responsibilities have a significant proportion of their annual cash compensation tied to Company performance through their annual incentive opportunity. The Compensation Committee has not, however, established a policy or a formula for the purpose of calculating the specific amount or relative percentage of total compensation that should be derived from annual cash incentive opportunities.

The KAR Auction Services, Inc. Annual Incentive Plan. The KAR Auction Services, Inc. Annual Incentive Plan (the "Annual Incentive Plan"), which is part of the Omnibus Plan, was adopted for the purpose of motivating and rewarding the successful achievement of pre-determined financial objectives at KAR Auction Services and its subsidiaries. Under such plan, the grant of cash based awards to eligible participants is contingent upon the achievement of certain corporate performance goals as determined by the Compensation Committee.

The Compensation Committee uses "Adjusted EBITDA" (as defined below and in the Company's senior credit agreement, for KAR Auction Services, ADESA and IAA and adjusted EBTDA for AFC, depending upon the named executive officer) as the measure of performance when establishing annual performance objectives for the named executive officers. Using these measures, the Compensation Committee establishes, on an annual basis, specific targets that determine the size of payouts under the incentive plan. In 2012, the annual incentive opportunity for each named executive officer other than Messrs. Hallett and Loughmiller, was based upon a combination of the performance of the Company overall and the performance of the executive's business unit. Mr. Hallett's and Mr. Loughmiller's annual incentive opportunity was based solely upon the performance of KAR Auction Services. Mr. Caruso's annual incentive opportunity was based on the performance of ADESA and KAR Auction Services. Mr. O'Brien's annual incentive opportunity was based on the performance of IAA and KAR Auction Services. Mr. Gottwald's annual incentive opportunity was based on the performance of AFC and KAR Auction Services.

"Adjusted EBITDA" is equal to EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude, among other things: (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock option expense; (e) certain other noncash amounts included in the determination of net income; (f) management, monitoring, consulting and advisory fees paid to the Equity Sponsors; (g) charges and revenue reductions resulting from purchase accounting; (h) unrealized gains and losses on hedge agreements; (i) minority interest; (j) expenses associated with the consolidation of salvage operations; (k) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (l) expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts; (m) expenses incurred in connection with permitted acquisitions; (n) any impairment charges or write-offs of intangibles; and (o) any extraordinary, unusual or nonrecurring charges, expenses or losses. Adjusted EBITDA with respect to our operating business units, ADESA, IAA and AFC (adjusted EBTDA), is determined in a similar manner, however, it excludes "holding company" expenses as disclosed in our Annual Report on Form 10-K.

Performance Targets for the Annual Incentive Plan. The Compensation Committee analyzes financial measures and determines the level of performance required to receive threshold, target and superior annual incentive payouts. The Compensation Committee established the performance objectives in amounts which it believed would be achievable given a sustained effort on the part of the named executive officers and which would require increasingly greater effort to achieve the target and superior objectives. The Compensation Committee may increase or decrease the performance targets and the potential payouts at each performance target if, in the discretion of the Compensation Committee, the circumstances warrant such an adjustment.

The chart which follows provides the Adjusted EBITDA (adjusted EBTDA for AFC) performance targets established by the Compensation Committee for 2012 as well as the actual level of performance achieved (dollars in millions):

	Threshold	Target	Superior	Actual
KAR Auction Services	$485.63	$525.00	$577.50	$500.20
ADESA	$201.65	$218.00	$239.80	$221.00
IAA	$204.43	$221.00	$243.10	$206.40
AFC	$110.08	$119.00	$130.90	$120.20

Under the Annual Incentive Plan, threshold performance objectives must be met in order for any payout to occur. Payouts can range from 50% of target awards for performance at threshold up to a maximum of 150% of target awards for superior performance or no payout if performance is below threshold. The following table shows the annual incentive opportunities for our named executive officers for 2012:

		Bonus Opportunity			Bonus Goal Weighting %			
Name	Base Salary	Threshold % of Base Salary	Target % of Base Salary	Superior % of Base Salary	KAR Auction Services	ADESA	IAA	AFC
James Hallett	$816,000	50	100	150	100			
Eric Loughmiller	$425,350	37.5	75	112.5	100			
Thomas Caruso	$500,000	50	100	150	50	50		
Thomas O'Brien	$501,766	50	100	150	50		50	
Donald Gottwald	$416,160	50	100	150	50			50

Because KAR Auction Services, ADESA, IAA and AFC each achieved at least the threshold level of performance, each of our named executive officers were eligible to receive an award under the Annual Incentive Plan for 2012. The respective award amounts are set forth in the Summary Compensation Table.

The following table shows the annual incentive opportunities for our named executive officers for 2013:

		Bonus Opportunity			Bonus Goal Weighting %			
Name	Base Salary	Threshold % of Base Salary	Target % of Base Salary	Superior % of Base Salary	KAR Auction Services	ADESA	IAA	AFC
James Hallett	$832,320	50	100	150	100			
Eric Loughmiller	$433,857	37.5	75	112.5	100			
Thomas Caruso	$510,000	50	100	150	50	50		
Thomas O'Brien	$511,801	50	100	150	50		50	
Donald Gottwald	$424,483	50	100	150	50			50

Long-Term Incentive Opportunity—Equity Incentive Plans

The KAR Auction Services, Inc. Stock Incentive Plan. Following the completion of a series of transactions on April 20, 2007 which resulted in ADESA and IAA becoming wholly owned subsidiaries of KAR Auction Services, the KAR Auction Services, Inc. Stock Incentive Plan ("Stock Incentive Plan") was adopted to foster and promote the long-term financial success of KAR Auction Services and its subsidiaries and materially increase stockholder value by:

- motivating superior performance by means of service- and performance- related incentives;

- aligning the interests of our named executive officers with the interests of our stockholders so that they manage from the perspective of owners with an equity stake in the Company; and
- enabling KAR Auction Services and its subsidiaries to attract and retain the services of a skilled and experienced executive management team upon whose judgment, interest and special effort that we rely on for the successful conduct of our operations.

The Stock Incentive Plan, which has subsequently been frozen, provided for the grant of two types of options as well as restricted stock. No restricted stock was granted under the plan. Participation in the Stock Incentive Plan was limited to such persons as the Compensation Committee, in its discretion, designated. The number of options granted to each participant, the date of such grant and the exercise price of the options were also subject to the discretion of the Compensation Committee.

Under the Stock Incentive Plan, one-fourth of the total amount of each option grant was service options, and three-fourths of the amount of each grant was exit options. We allocated service options and exit options to both encourage employee retention and reward effort. Service options functioned as an employee retention tool by rewarding continued service. Exit options rewarded employees' efforts toward increasing the value of KAR Auction Services and also served as a retention tool because a grantee generally was required to remain employed to benefit from the increase in the value of KAR Auction Services. Together, these awards aligned the interests of our named executive officers and other employees with the interests of our stockholders, who benefited from both the retention of a skilled management team and an increase in the value of KAR Auction Services.

Service options were generally exercisable in four equal annual installments, commencing on the first anniversary of the grant date. Pursuant to the terms of the Stock Incentive Plan, the Compensation Committee had the right to accelerate the exercisability of outstanding options in its discretion. In connection with our initial public offering, the Compensation Committee accelerated the exercisability of all service options outstanding on the effective date of the initial public offering. The Compensation Committee believed that these vested service options would continue to function as an employee retention tool because option holders would want to contribute to and benefit from the potential increase in the value of the Company in the future. Exit options were performance options, and prior to the consummation of our initial public offering, became exercisable only after the occurrence of an exit event based on the satisfaction of certain performance goals.

Following completion of our initial public offering, the Compensation Committee exercised its discretion and modified the existing exercisability criteria for outstanding exit options so that such options vested and became exercisable in four tranches contingent upon (i) the weighted average closing price of the shares of common stock of the Company exceeding the threshold levels of $20.00, $25.00, $30.00 or $35.00 for 90 consecutive trading days; (ii) the closing price of the common stock of the Company on the last trading day of such ninety (90) consecutive trading day period being greater than or equal to 85% of the threshold levels of $20.00, $25.00, $30.00 or $35.00; and (iii) the holder being a director, officer or employee of the Company or any of its subsidiaries on such date.

In March 2013, the Board of Directors revised the vesting criteria for outstanding exit options so that such options vest and become exercisable in four tranches contingent upon the closing price of the shares of common stock of the Company exceeding the threshold levels of $20.00, $25.00, $30.00 or $35.00 for 20 consecutive trading days (as set forth in the chart below). In connection with this modification, the exit options included in the first tranche (the exit options associated with the $20.00 threshold level) became fully vested.

Amount To Vest	Conditions to Vesting
25% of the exit options will vest and become exercisable if............................	the closing price of Company common stock exceeds $20.00 for a period of 20 consecutive trading days(1)
An additional 25% of the exit options will vest and become exercisable if	the closing price of Company common stock exceeds $25.00 for a period of 20 consecutive trading days
An additional 25% of the exit options will vest and become exercisable if	the closing price of Company common stock exceeds $30.00 for a period of 20 consecutive trading days
An additional 25% of the exit options will vest and become exercisable if	the closing price of Company common stock exceeds $35.00 for a period of 20 consecutive trading days

(1) The exit options included in this tranche became fully vested upon the modification of the vesting criteria in March 2013.

The aggregate number of shares of our common stock subject to outstanding options under the Stock Incentive Plan and the respective exercise price of the outstanding options will be proportionately adjusted to reflect, as deemed equitable and appropriate by the Compensation Committee, any stock dividend, stock split (including reverse stock splits) or other recapitalization or extraordinary transaction affecting the shares of our common stock.

Effective December 10, 2009, the Stock Incentive Plan was frozen. No additional awards will be made under the Stock Incentive Plan. All awards after December 10, 2009 have been and will be made under the Omnibus Plan. As noted below, our Omnibus Plan will further provide incentives for both performance and retention, as grants under that plan will generally be forfeited upon an employee's termination of employment.

Omnibus Plan. Our Board of Directors adopted the Omnibus Plan on December 10, 2009 and most recently amended the Omnibus Plan on April 19, 2013 to make certain immaterial revisions and revisions necessary to comply with Section 162(m). The purpose of the Omnibus Plan is to provide an additional incentive to selected management employees, directors, independent contractors and consultants of KAR Auction Services whose contributions are essential to the growth and success of our business, in order to strengthen the commitment of such persons to KAR Auction Services, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in our long-term growth and profitability.

Under the Omnibus Plan, participants are eligible to receive options, restricted stock, stock appreciation rights, other stock-based awards or cash-based awards as determined by the Compensation Committee. The first equity grants made under the Omnibus Plan, in March 2010, mirrored the grants made under the Stock Incentive Plan. As such, one-fourth of such grants were service options and three-fourths of the grants were exit options. Those exit options will vest in accordance with the schedule described above for exit options under the Stock Incentive Plan. All subsequent equity grants, since March 2010, have been service options only. The aggregate authorized number of shares of common stock available for awards under the terms of the Omnibus Plan is 6,492,683.

Under the Omnibus Plan, the Compensation Committee has the authority to:

- select Omnibus Plan participants and determine the types of awards to be made to participants, and any appropriate award terms, conditions and restrictions (including the performance goals and period applicable to awards, if any);

- determine the number of shares to be covered by each award granted;

- accelerate or waive any terms and conditions imposed on an award;

- adopt, alter, and repeal such administrative rules, guidelines and practices governing the plan as it from time to time deems advisable; and

- construe and interpret the terms and provisions of the plan and any awards issued under the Omnibus Plan (and any award agreement relating thereto), and to otherwise supervise the administration of the Omnibus Plan and to exercise all powers and authorities either specifically granted under the Omnibus Plan or necessary and advisable in the administration of the Omnibus Plan.

In 2012, the Compensation Committee did not award any equity awards or other long-term incentive compensation to any named executive officers.

We are asking stockholders to approve the material terms of performance-based awards under the Omnibus Plan in Proposal No. 2 of this proxy statement in order to permit certain awards to qualify as performance-based compensation for purposes of Section 162(m).

Retirement, Health and Welfare Benefits

We offer a variety of health and welfare and retirement programs to all eligible employees, including our named executive officers. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. Our health and welfare programs include medical, dental, vision, pharmacy, life insurance, disability and accidental death and disability. We also provide travel insurance to all employees who travel for business purposes. Please see footnote 3 to the Summary Compensation Table for more information regarding perquisites.

Perquisites

In general, the Compensation Committee believes that the provision of a certain level of perquisites and other personal benefits to the named executive officers is reasonable and consistent with the objective of facilitating and allowing us to attract and retain highly qualified executive officers. The perquisites which are currently available to our named executive officers include an automobile allowance or company car, 401(k) matching contributions, Company-paid group term life insurance premiums, professional association membership fees and club membership fees. The Compensation Committee has not established a policy or a formula for the purpose of calculating the amount or relative percentage of total compensation that should be derived from perquisites.

Employment and Severance Agreements

The Compensation Committee recognizes that, from time to time, it is appropriate to enter into agreements with our executive officers to ensure that we continue to retain their services and to promote stability and continuity within the Company. Messrs. Hallett, O'Brien and Gottwald are the only named executive officers who have an employment agreement or severance agreement with KAR Auction Services or one of its subsidiaries.

A description of Messrs. Hallett, O'Brien and Gottwald's agreements can be found in the section titled "Employment Agreements with Named Executive Officers."

KAR LLC Override Units

Each of our named executive officers, other than Messrs. Caruso and Gottwald, is also a Management Member of KAR LLC. Through the issuance by KAR LLC of certain profit interests, referred to as "Override Units," such named executive officers are incentivized to manage from the perspective of owners with an equity stake in the Company. Override Units were issued as either Operating Units or Value Units. One-fourth of the Override Units were issued as Operating Units and the remaining three-fourths were issued as Value Units. The ratio of Operating Units to Value Units was determined by our Equity Sponsors and was intended as both a retention tool to reward continued service and as a performance-incentive to reward our named executive officers for the achievement of certain multiples on our Equity Sponsors' original investment in KAR LLC, as described in the following paragraphs. The Company recognizes compensation expense with respect to the KAR LLC Operating Units.

The Operating Units vested ratably over four years from the date of grant and are 100% vested. The Operating Units will participate in distributions from KAR LLC to its members (including our Equity Sponsors) in excess of such members' original investments in KAR LLC. Notwithstanding that the Operating Units are fully vested, they will be forfeited by any named executive officer whose employment is terminated by KAR LLC or one of its subsidiaries for cause.

Except with respect to the Value Units held by Mr. Hallett, the Value Units generally will be forfeited in the event the named executive officer ceases to be employed by KAR LLC or one of its subsidiaries. Pursuant to the terms of his employment agreement with KAR Auction Services, Mr. Hallett will be permitted to retain the Value Units which he holds in KAR LLC upon the termination of his employment, for any reason other than for cause, by KAR Auction Services or without "good reason" by Mr. Hallett (as such terms are defined in Mr. Hallett's employment agreement).

The portion of the Value Units held by the executive that will participate in distributions from KAR LLC to its members (including our Equity Sponsors) will be determined based on the investment multiple and internal rate of return realized by the Investor Members on their original investment in KAR LLC. For example, 100% of the Value Units will participate in distributions if the Investment Multiple is at least 3.5; however, only the Applicable Performance Percentage of the Value Units will participate in distributions if the Investment Multiple is greater than 1.5 but less than 3.5.

For purposes of the foregoing, the "Investment Multiple" is equal to the quotient of the "Current Value" divided by the "Initial Price." The "Current Value" is generally equal to the sum of (i) the aggregate amount of distributions received by the Investor Members prior to such time in respect of their common equity interests of KAR LLC plus (ii) in the case of a distribution made in connection with an Exit Event, the product of (y) the aggregate amount per Common Unit of distributions to be received by the Investor Members upon such Exit Event and (z) the aggregate number of Units held by the Investor Members as of the occurrence of such Exit Event. The "Initial Price" is equal to the product of (i) the Investor Members' average cost per each Common Unit held by the Investor Member times (ii) the total number of the Common Units held by the Investor Member. The "Applicable Performance Percentage" means, expressed as a percentage, the quotient obtained by dividing (x) the excess, if positive, of the Investment Multiple over 1.5 by (y) 2. Notwithstanding the foregoing or anything to the contrary, in no event will any Value Units participate in distributions unless the Investor

Members receive an internal rate of return, compounded annually on their investment in KAR LLC of at least 12% and the Investment Multiple is greater than 1.5. In the event that any portion of the Value Units do not become eligible to participate in distributions upon the occurrence of an Exit Event, such portion of such Value Units will automatically be forfeited. An Exit Event includes, generally, any transaction other than an initial public offering which results in the sale, transfer, or other disposition by certain of the original members of KAR LLC, which are referred to as the "Investor Members," to a third party of (a) all or substantially all of the limited liability company interests of KAR LLC beneficially owned by the Investor Members, as of the date of such transaction; or (b) all of the assets of KAR LLC and its subsidiaries, taken as a whole.

The Investor Members include Kelso Investment Associates VII, L.P.; KEP VI, LLC; GS Capital Partners VI Fund, L.P.; GS Capital Partners VI Parallel, L.P.; GS Capital Partners VI GmbH & Co. KG; GS Capital Partners VI Offshore Fund, L.P.; ValueAct Capital Master Fund, L.P.; PCap KAR LLC; Axle Holdings II, LLC ("Axle LLC"); and such other persons who from time to time become members of the Company and are designated as Investor Members.

The Operating Units and the Value Units are not convertible into common stock and are generally not transferable. The terms of the Override Units, including the vesting requirements and applicable performance standards, may be modified by KAR LLC as permitted in the LLC Agreement.

Our named executive officers hold profit interests in KAR LLC as follows:

Name	Value Units	Operating Units
James Hallett	131,054.76	43,684.92
Eric Loughmiller	38,436.00	12,812.00
Thomas O'Brien	41,196.22	13,732.07

Messrs. Caruso and Gottwald do not hold profit interests in KAR LLC.

Axle LLC Override Units

Prior to the date of the 2007 Transactions (as defined in "Certain Related Party Relationships"), Mr. O'Brien was a Management Member of Axle LLC. Axle LLC is the former ultimate parent company of IAA and is a holder of common equity interests in KAR LLC. As such, he holds profit interests in Axle LLC referred to as Override Units (the "Axle Override Units") which were granted prior to the completion of the 2007 Transactions. The Company recognizes compensation expense with respect to the Axle Operating Units.

Similar to the Override Units in KAR LLC, the Axle Override Units consist of Operating Units, which vested ratably over a period of three years and are 100% vested, and Value Units, which vest upon the achievement of certain financial objectives for the benefit of certain of the investors in Axle LLC referred to in the Axle LLC Agreement as the "Kelso Members."

Subject to certain conditions, including possible forfeiture, the holders of Axle Override Units, including Mr. O'Brien, have certain rights with respect to profits and losses of Axle LLC and distributions from Axle LLC.

Value Units vest and become eligible to participate in distributions upon the occurrence of certain Exit Events only if, upon the occurrence of such an event, the Kelso Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%, and the Investment Multiple is greater than two. All Value Units will participate in distributions if the Investment Multiple is at least four. If the Investment Multiple is greater than two, but less than four, the Value Units will participate in the distribution on a ratable basis. Value Units not eligible to participate in distributions upon the occurrence of an Exit Event will be automatically forfeited.

For purposes of the Axle Override Units, an "Exit Event" includes, generally, any transaction which results in the sale, transfer or other disposition by the Kelso Members to a third party of (i) all or substantially all of the limited liability company interests of Axle LLC beneficially owned by the Investor Members as of the date of such transaction; or (ii) all of the assets of Axle LLC and its subsidiaries, taken as a whole. For purposes of the Axle LLC Agreement, the Investment Multiple is, generally, equal to the quotient of the fair market value of all distributions received by Kelso Investment Associates VII, L.P. and KEP VI, LLC (collectively, "Kelso") divided by Kelso's aggregate capital contributions to Axle LLC.

The Axle Override Units were not granted by the Compensation Committee and the Compensation Committee does not have authority to amend the terms of the Axle Override Units. Mr. O'Brien holds 128,971 Value Units and 64,485 Operating Units in Axle LLC. The Compensation Committee has discretion to consider the Axle Override Units held by Mr. O'Brien when determining total compensation. In 2012, the Compensation Committee did not consider the value of the Axle Override Units a significant factor in determining compensation levels for Mr. O'Brien and, given the amount of Company equity awards held by Mr. O'Brien, did not consider the Axle Override Units held by such executive to pose any potential conflict of interest with respect to the Company.

Tax and Accounting Considerations

Employment Agreements. Section 280G of the Internal Revenue Code ("Section 280G") and related provisions impose substantial excise taxes under Section 4999 of the Code on so-called "excess parachute payments" payable to certain named executive officers upon a change in control and results in the loss of the compensation deduction for such payments by the Company. Mr. Hallett's and Mr. O'Brien's employment agreements each provide for a "gross-up payment" in the event that such excise taxes result from any excess parachute payments.

Mr. Hallett's employment agreement provides that in the event that any payment or benefit under such agreement, in connection with Mr. Hallett's employment or termination of employment is or becomes subject to an excise tax under Code Section 4999, then KAR Auction Services will make a cash payment to Mr. Hallett, which, after the imposition of all income, employment, excise and other taxes thereon as well as any penalty and interest assessments associated therewith, will be sufficient to place Mr. Hallett in the same after-tax position as he would have been in had such excise tax not been applied. However, in the event that a reduction of the total payments to Mr. Hallett would avoid the application of the excise tax, then the total payments will be reduced to the extent necessary to avoid the excise tax, but in no event by more than 10% of the original amount of the total payments.

Mr. O'Brien's employment agreement provides that, in connection with a change in control of IAA, a lump sum gross-up payment will be made to Mr. O'Brien in such amount as is necessary to ensure that the net amount retained by Mr. O'Brien, after reduction for any excise taxes on the payments under his employment agreement, will be equal to the amount that he would have received if no portion of the payments had been an excess parachute payment.

Stock Incentive Plan. In the event that any payment received under the plan upon the occurrence of an Exit Event would constitute an excess parachute payment, the payment will be reduced to the extent necessary to eliminate any such excess parachute payment. In such event, KAR Auction Services will use good faith efforts to seek the approval of the stockholders in the manner provided for in Section 280G(b)(5) of the Code and the regulations thereunder with respect to such reduced payments, so that such payment would not be treated as a "parachute payment" for this purpose.

Omnibus Plan. Certain awards under the Omnibus Plan are designed to comply with the performance-based compensation exception to the $1,000,000 per person annual deductibility limit under Section 162(m) applicable to Covered Employees. Following our initial public offering, we have had the benefit of a reliance period under Section 162(m), during which compensation paid from any compensation plan or agreement has not been subject to the Section 162(m) deduction limit. Because the reliance period under Section 162(m) will end on the date of the 2013 annual meeting of stockholders, we have asked stockholders to approve the material terms of the performance goals under the Omnibus Plan so that we may have the ability to grant awards under the Omnibus Plan that are designed to be deductible as performance-based compensation payable with respect to our Covered Employees. Though tax deductibility is one of many factors considered by the Compensation Committee when determining executive compensation, the Compensation Committee retains the discretion to award compensation that exceeds or does not qualify for the Section 162(m) deductibility limit.

Accounting for Stock-Based Compensation. We account for stock-based compensation in accordance with the requirements of ASC 718.

Financial Restatements. The Compensation Committee has not adopted a policy with respect to whether we will make retroactive adjustments to any cash- or equity-based incentive compensation paid to named executive officers (or others) where the payment was predicated upon the achievement of financial results that were subsequently the subject of a restatement. The Compensation Committee believes that this issue is best addressed when the need actually arises, when all of the facts regarding the restatement are known. However, the Company intends to adopt a compensation recoupment policy that will comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act when such requirements become effective.

Insider Trading Policy

Our insider trading policy expressly prohibits:

- ownership of margin securities;
- trading in options, warrants, puts and calls or similar instruments on the Company's securities; or
- selling the Company's securities "short."

We also prohibit officers and directors from pledging the Company's securities as collateral for loans. In addition, we prohibit our officers, directors and employees from purchasing or selling the Company's securities while in possession of material, non-public information, or otherwise using such information for their personal benefit. Our executives and directors are permitted to enter into trading plans that are intended to comply with the requirements of Rule 10b5-1 of the Securities Exchange Act of 1934 so that they can prudently diversify their asset portfolios and exercise their stock options before their scheduled expiration dates.

Results of Say on Pay Votes at 2011 Annual Meeting

At the Company's 2011 annual meeting of stockholders, the Company held a non-binding stockholder vote on executive compensation (commonly referred to as "Say on Pay"). At the meeting, approximately 97% of the votes on the matter were cast to approve the Company's executive compensation programs, less than 1% of the votes were cast against, and approximately 2% abstained from voting or constituted a broker non-vote.

The Compensation Committee has considered the results of the vote and feedback received from stockholders as part of its review of the Company's overall compensation program, including the appropriateness of the compensation philosophy and objectives, the role of the Compensation Committee and executive officers in setting compensation, the elements used to achieve the compensation philosophy and objectives, and the levels of compensation provided to the named executive officers. Following its review, the Compensation Committee decided to retain the Company's general approach to executive compensation, in part due to the significant majority of stockholders that voted to approve the Company's executive compensation programs at the 2011 annual meeting of stockholders.

The Company also held a non-binding stockholder vote at the meeting on whether to hold a Say on Pay vote every one, two or three years. Approximately 12% of the votes on the matter were cast in favor of holding a vote every year, less than one-tenth of 1% were cast in favor of holding a vote every two years, approximately 86% were cast in favor of holding a vote every three years and approximately 2% abstained or constituted a broker non-vote. In line with the results of the vote, the Company plans to present a Say on Pay vote every three years.

Compensation Committee Report

The Compensation Committee has reviewed the Compensation Discussion and Analysis for executive compensation for 2012 and discussed that analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee

Church M. Moore (Chairman)
Brian T. Clingen
Peter R. Formanek
Sanjeev Mehra
Gregory P. Spivy

Analysis of Risk in the Company's Compensation Structure

As part of its responsibilities to annually review all incentive compensation and equity-based plans, and evaluate whether the compensation arrangements of the Company's employees incentivize unnecessary and excessive risk-taking, the Compensation Committee evaluated the risk profile of all of the Company's compensation policies and practices for 2012, and concluded that they do not motivate imprudent risk-taking. In its evaluation, the Compensation Committee reviewed the Company's employee compensation structures and noted numerous design elements that manage and mitigate risk without diminishing the incentive nature of the compensation, including:

- a balanced mix between cash and equity, and annual and longer-term incentives;

- caps on incentive awards at reasonable levels;
- linear payouts between target levels with respect to annual incentive awards;
- Compensation Committee approval of (and discretion in) executive pay matters; and
- long-term vesting periods.

The Committee also reviewed the Company's compensation programs for certain design features that may have the potential to encourage excessive risk-taking, including: over-weighting towards annual incentives, highly leveraged payout curves, unreasonable thresholds and steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds. The Compensation Committee concluded that the Company's compensation programs do not include such elements or have implemented features, steps and controls that are designed to limit risks of our compensation arrangements. In light of these analyses, the Committee concluded that it has a balanced pay and performance program that does not encourage excessive risk-taking that is reasonably likely to have a material adverse effect on the Company.

Summary Compensation Table For 2012

The table below contains information concerning the compensation of our (i) PEO; (ii) PFO; and (iii) the three most highly compensated executive officers (other than the PEO and PFO) who were serving as executive officers as of December 31, 2012.

Name and Principal Position	Year	Salary	Bonus	Option Awards(1)	Non-Equity Incentive Plan Compensation(2)	All Other Compensation(3)	Total
James Hallett,	2012	$816,000	—	—	$559,025	$38,870	$1,413,895
CEO (PEO)	2011	$816,000	—	—	$625,508	$33,770	$1,475,278
	2010	$800,000	—	$1,050,000	$806,745	$32,222	$2,688,967
Eric Loughmiller,	2012	$425,350	—	—	$218,549	$12,565	$656,464
EVP and CFO (PFO)	2011	$425,350	—	—	$244,541	$6,970	$676,861
	2010	$402,423	—	—	$315,395	$25,300	$743,118
Thomas Caruso,	2012	$500,000	—	—	$438,467	$16,604	$955,071
CEO and President of ADESA	2011	$500,000	—	$462,000	$95,818	$10,665	$1,068,483
	2010	$450,000	—	$1,253,840	$113,449	$11,040	$1,828,329
Thomas O'Brien,	2012	$501,766	—	—	$312,080	$41,730	$855,576
CEO of IAA	2011	$501,766	—	—	$619,870	$36,590	$1,158,226
	2010	$491,927	—	—	$677,450	$33,382	$1,202,759
Donald Gottwald,	2012	$416,160	—	—	$361,435	$25,069	$802,664
CEO and President of AFC	2011	$416,160	—	—	$410,961	$26,714	$853,835
	2010	$408,000	—	—	$421,362	$18,460	$847,822

(1) The amounts reported in this column represent the grant date fair value computed in accordance with ASC 718. See Note 4 to our financial statements for 2012 regarding the assumptions made in determining the grant date fair value.

(2) The amount reported is equal to the amount paid to the named executive officer under the Annual Incentive Plan which is governed by the Omnibus Plan.

(3) The amounts reported for 2012 consist of an automobile allowance, 401(k) matching contributions, Company-paid group term life insurance premiums and professional association and club membership fees.

- Automobile allowance: Mr. Hallett—$25,000; Mr. Caruso—$4,125 (company car); Mr. O'Brien—$18,000; Mr. Gottwald—$13,020.
- 401(k) matching contributions: Mr. Hallett—$10,000; Mr. Loughmiller—$10,000; Mr. Caruso—$10,000; Mr. O'Brien—$10,000; Mr. Gottwald—$10,000.
- Company-paid group term life insurance premiums: Mr. Hallett—$3,870; Mr. Loughmiller—$2,070; Mr. Caruso—$2,070; Mr. O'Brien—$3,870; Mr. Gottwald—$1,350.
- Professional association and club membership fees: Mr. Loughmiller—$495; Mr. O'Brien—$9,860; Mr. Caruso—$409; Mr. Gottwald—$699.

Grants of Plan-Based Awards For 2012

The following table summarizes the payouts which our named executive officers could have received upon the achievement of certain performance objectives under the Annual Incentive Plan.

			Estimated Future Payouts under Non-Equity Incentive Plan Awards(1)		
Name (a)	Grant Date (b)	Compensation Committee Action Date	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)
James Hallett	N/A	N/A	$408,000	$816,000	$1,224,000
Eric Loughmiller	N/A	N/A	$159,506	$319,013	$478,519
Thomas Caruso	N/A	N/A	$250,000	$500,000	$750,000
Thomas O'Brien	N/A	N/A	$250,883	$501,766	$752,649
Donald Gottwald	N/A	N/A	$208,080	$416,160	$624,240

(1) Columns (c), (d) and (e) include the potential awards for performance at the threshold, target and maximum ("superior") levels, respectively, under the Annual Incentive Plan. See, "Compensation Discussion and Analysis—Elements Used to Achieve Compensation Philosophy and Objectives—Annual Cash Incentive Plans" for further information on the terms of the Annual Incentive Plan.

Additional information concerning our cash and equity incentive plans may be found in the sections titled "Elements Used to Achieve Compensation Philosophy and Objectives—Annual Cash Incentive Plans" and "Long-Term Incentive Opportunity—Equity Incentive Plans," respectively. For additional information concerning the KAR LLC Override Units, and Axle LLC Override Units see the sections titled "Elements Used to Achieve Compensation Philosophy and Objectives—KAR LLC Override Units," and "—Axle LLC Override Units," respectively.

Employment Agreements with Named Executive Officers

Mr. Hallett, who has an employment agreement with KAR Auction Services, Mr. O'Brien, who has an employment agreement with IAA and Mr. Gottwald, who has an employment agreement with AFC are currently the only named executive officers who have an employment agreement or severance agreement with KAR Auction Services or one of its subsidiaries. A summary of each of the agreements is provided below.

James Hallett

Mr. Hallett's employment agreement, which became effective as of February 27, 2012, provides for the following severance and change in control payments:

Termination Due to Mr. Hallett's Death or Disability

If Mr. Hallett's employment is terminated as a result of his death or disability, we will pay Mr. Hallett, or in the case of his death, Mr. Hallett's estate or beneficiaries, an amount equal to the sum of (i) any accrued but unpaid base salary and accrued but unused vacation days; (ii) any earned and vested benefits and payments pursuant to the terms of any benefit plan (collectively, the amounts described in (i) and (ii) above are, the "Accrued Obligations"); and (iii) subject to Mr. Hallett executing a general release of any claims that he may have against KAR Auction Services (the "Release"), any annual bonus for a prior completed calendar year that has not yet been calculated or paid to Mr. Hallett (the "Earned but Unpaid Bonus").

In addition, if Mr. Hallett is participating in the health plans of KAR Auction Services at the time of his termination, we will pay him, or in the case of his death, his estate or beneficiaries, his or their premiums attributable to maintaining insurance coverage under COBRA for the shorter of (i) 18 months; or (ii) until Mr. Hallett becomes eligible for comparable coverage under the health plans of another employer (the "Continued Benefits"). Subject to receipt and effectiveness of the Release, we also will pay Mr. Hallett, or his estate or beneficiaries, a prorated bonus based upon the portion of the year during which Mr. Hallett was employed by us (the "Prorated Bonus"). Mr. Hallett, or his estate or beneficiaries, also will be entitled to retain all of the Operating Units and Value Units in KAR LLC which Mr. Hallett holds at the time of his termination.

Termination by KAR Auction Services for Cause

Following a majority vote of the Board of Directors (excluding Mr. Hallett or any other employee of KAR Auction Services), we may terminate Mr. Hallett's employment at any time for "Cause." In such event, our only obligation to Mr. Hallett will be the payment, in a lump sum, of Mr. Hallett's Accrued Obligations.

"Cause" is defined in the employment agreement to mean (i) Mr. Hallett's willful, continued and uncured failure to perform substantially his duties under the employment agreement for a period of 14 days following notice to Mr. Hallett of such failure; (ii) Mr. Hallett engaging in illegal conduct or gross misconduct that is demonstrably likely to lead to material injury to KAR Auction Services; (iii) Mr. Hallett's indictment or conviction of, or plea of *nolo contendere* to, a crime constituting a felony or any other crime involving moral turpitude; or (iv) Mr. Hallett's failure to comply with the provisions of the employment agreement relating to confidential information, intellectual property, non-competition and non-solicitation which is not cured within the 14 day period following written notice to Mr. Hallett of such failure.

Termination by KAR Auction Services Without Cause

Mr. Hallett's employment may be terminated without Cause at any time upon 30 days' prior written notice. In the event of a termination without Cause, KAR Auction Services will pay Mr. Hallett the following "Severance Benefits": (i) two times the sum of Mr. Hallett's (a) annual base salary and (b) target bonus for the year in which termination occurs which, for this purpose, shall not equal less than 100% of Mr. Hallett's base salary; (ii) a Prorated Bonus in a lump sum; and (iii) the Continued Benefits.

In addition to the Severance Benefits described above, we will also pay Mr. Hallett the Accrued Obligations and any Earned but Unpaid Bonus. Mr. Hallett will also be entitled to retain all of the Operating Units and Value Units which he holds in KAR LLC at the time of his termination.

Termination by Mr. Hallett for Good Reason

Mr. Hallett may terminate his employment for "Good Reason" within 90 days following the occurrence of an event constituting "Good Reason," if such event remains uncured for a period of 30 days following notice of the event by Mr. Hallett to KAR Auction Services. Upon such termination, KAR Auction Services will pay Mr. Hallett the sum of the Severance Benefits, the Accrued Obligations, and any Earned but Unpaid Bonus. Additionally, Mr. Hallett, or his estate or beneficiaries, will be entitled to retain all of the Operating Units and Value Units of KAR LLC which Mr. Hallett holds at the time of this termination.

"Good Reason" is defined in the employment agreement to mean the occurrence of any of the following:

(i) A material reduction of Mr. Hallett's authority, duties and responsibilities, or the assignment to Mr. Hallett of duties materially inconsistent with Mr. Hallett's position as Chief Executive Officer;

(ii) A requirement by KAR Auction Services that Mr. Hallett relocate his principal business location to a location more than 50 miles from KAR Auction Services' executive offices as of the effective date of the employment agreement;

(iii) Any material failure by KAR Auction Services to comply with any of the terms and conditions of the employment agreement;

(iv) Any failure to timely pay or provide Mr. Hallett's base salary, or any reduction in Mr. Hallett's base salary below Eight Hundred Sixteen Thousand Dollars ($816,000), other than in connection with across-the-board salary reductions;

(v) Any material reduction in Mr. Hallett's base salary or annual bonus opportunity or any amendment to the terms of the Operating Agreement of KAR LLC which materially and adversely affects Mr. Hallett's rights with respect to the Operating Units or Value Units he holds in KAR LLC; or

(vi) A "Change of Control," as defined in the Omnibus Plan, occurs and, if applicable, KAR Auction Services fails to cause its successor to assume or reaffirm KAR Auction Services' obligations under the employment agreement without change.

Termination by Mr. Hallett without Good Reason

Mr. Hallett may terminate his employment under the employment agreement at any time without Good Reason upon 30 days' prior written notice. In such event, we will pay Mr. Hallett a lump sum amount equal to the Accrued Obligations. Additionally, Mr. Hallett will be entitled to retain all Operating Units which he holds in KAR LLC at the time of his termination.

Termination by Mr. Hallett upon Retirement

Mr. Hallett may voluntarily terminate his employment under the agreement due to retirement at any time on or after the third anniversary of the effective date of the employment agreement by announcing his retirement at least 12 months prior to such termination. In the event of such a termination, we will pay Mr. Hallett a lump sum amount equal to the Accrued Obligations and a Prorated Bonus. Mr. Hallett will also be entitled to retain all of the Operating Units and Value Units which he holds in KAR LLC at the time of his termination.

Excise Tax Gross-Up

As described in "—Tax and Accounting Considerations—Employment Agreements," Mr. Hallett's employment agreement provides that in the event that any payment or benefit in connection with his employment is or becomes subject to an excise tax under Code Section 4999, KAR Auction Services will make a cash payment to Mr. Hallett, which after the imposition of all income, employment, excise and other taxes thereon as well as any penalty and interest assessments associated therewith, will be sufficient to place Mr. Hallett in the same after-tax position as he would have been in had such excise tax not applied. However, in the event that a reduction of the total payments due to Mr. Hallett would avoid the application of the excise tax, then the total payments will be reduced to the extent necessary to avoid the excise tax, but in no event by more than 10% of the original amount of the total payments due.

Requirements With Respect to Non-Competition and Non-Solicitation

The employment agreement provides that Mr. Hallett is prohibited, while he is employed by KAR Auction Services and for a period of two years thereafter (except in the case of retirement) (the "Restricted Period"), within the U.S. or Canada from performing, for or on behalf of a competitor (as defined in the employment agreement), the same or similar services as those that he performed for KAR Auction Services. In addition, Mr. Hallett is also prohibited during that same period from engaging in, owning, operating or controlling any competitor within the United States or Canada.

During the Restricted Period, Mr. Hallett is also prohibited from inducing or attempting to induce any employee of KAR Auction Services to leave the employ of KAR Auction Services, or in any way interfere with the relationship between KAR Auction Services and any of its employees, or inducing or attempting to induce any customer, client, member, supplier, licensee, licensor or other business relation of KAR Auction Services to cease doing business with KAR Auction Services, or otherwise interfere with the business relationship between KAR Auction Services and any such customer, client, member, supplier, licensee, licensor or business relation of KAR Auction Services.

Thomas O'Brien

Mr. O'Brien's employment agreement, which was amended and restated effective as of April 2, 2001 and further amended on December 1, 2008, provides that Mr. O'Brien is an at-will employee and provides for the following severance and change in control payments:

Termination Due to Mr. O'Brien's Death or Disability

If Mr. O'Brien's employment is terminated as a result of his death or disability, IAA will be obligated to pay him (or his legal representatives) an amount equal to the sum of (i) any earned but unpaid base salary; (ii) his accrued but unpaid vacation earned through the date of termination; (iii) the greater of (I) the product of (x) any incentive compensation paid to or deferred by Mr. O'Brien for the fiscal year preceding the fiscal year in which the date of termination occurs, multiplied by (y) a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination, and the denominator of which is 365 and (II) the average of the past three years' annual bonuses (such greater amount being "O'Brien's Annual Bonus"); and (iv) any compensation previously deferred by Mr. O'Brien. The aggregate of the foregoing is referred to as the "O'Brien's Accrued Obligations." Mr. O'Brien's target bonus is 100% of his annual base salary. For purposes of Mr. O'Brien's employment agreement, "disability" is defined to mean with respect to Mr. O'Brien, a substantial

inability, by reason of physical or mental illness or accident, to perform his regular responsibilities under the employment agreement indefinitely or for a period of one hundred eighty (180) days. Long-term disability insurance is a Company-paid benefit for all employees and is only paid after six months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

Voluntary Termination by Mr. O'Brien or Termination for Cause by IAA

If Mr. O'Brien voluntarily terminates his employment or if IAA terminates his employment for cause, IAA's sole obligation will be to pay Mr. O'Brien a lump sum amount equal to (i) any earned but unpaid base salary; and (ii) his accrued but unpaid vacation earned through the date of termination. For purposes of the employment agreement, "Cause" means, as determined in the Board of Directors' discretion, Mr. O'Brien's (i) willful and continued failure to perform substantially his duties with IAA or one of its affiliates (other than any such failure resulting from incapacity due to medically documented illness or injury) for a period of 30 days after a written demand for substantial performance is delivered to Mr. O'Brien by the Board of Directors, which specifically identifies the manner in which the Board of Directors believes that Mr. O'Brien has not substantially performed his duties; or (ii) willful engaging in illegal conduct or gross misconduct which is demonstrably injurious to IAA.

Termination for Other Reasons

If Mr. O'Brien's employment is terminated for any reason other than by IAA for Cause or upon Mr. O'Brien's voluntary resignation, death or disability, either prior to or more than two years after a "change in control" (as defined below), IAA will be obligated to pay Mr. O'Brien an amount equal to the sum of (i) Mr. O'Brien's annual base salary on the date of such termination; plus (ii) Mr. O'Brien's average annual bonus received over the eight fiscal quarters immediately preceding the fiscal quarter during which Mr. O'Brien's employment terminates without exceeding Mr. O'Brien's target bonus for the fiscal year during which Mr. O'Brien's employment terminates; plus (iii) Mr. O'Brien's auto allowance for IAA's fiscal year during which Mr. O'Brien's employment terminates. In addition, IAA must provide, at IAA's expense, continued group health plan coverage for Mr. O'Brien and his qualified beneficiaries until the earlier of the date that Mr. O'Brien begins any subsequent full-time employment for another employer for pay and the date that is one year after Mr. O'Brien's termination of employment.

Termination within Two Years Following a Change in Control

If Mr. O'Brien's employment with IAA is terminated by IAA without Cause or by reason of Mr. O'Brien's "involuntary termination" (as defined below), in either case within two years after the effective date of a change in control, IAA shall pay Mr. O'Brien (i) an amount equal to 150% of the sum of (a) Mr. O'Brien's then-current annual base salary and (b) O'Brien's Annual Bonus (as defined above) plus (ii) the amount of O'Brien's Accrued Obligations (as defined above). In addition, IAA must provide, at its expense, continued group health plan coverage for Mr. O'Brien and his qualified beneficiaries until the earlier of the date that Mr. O'Brien begins any subsequent full-time employment for another employer for pay and the date that is 18 months after Mr. O'Brien's termination of employment for any reason.

For purposes of the foregoing, an "involuntary termination" means, generally, Mr. O'Brien's voluntary termination of employment following (i) a change in Mr. O'Brien's position which materially reduces Mr. O'Brien's level of responsibility; (ii) a reduction in Mr. O'Brien's level of compensation (base salary and target incentive compensation); or (iii) a change in Mr. O'Brien's place of employment, which is more than 75 miles from Mr. O'Brien's then-current place of employment, provided that such change or diminution, as applicable, is effected without Mr. O'Brien's written concurrence.

For purposes of Mr. O'Brien's employment agreement, a "change of control" means, generally: (i) the acquisition by any individual, entity, or group of beneficial ownership of 50% or more of the voting power of the then outstanding voting securities of IAA entitled to vote generally in the election of directors; or (ii) individuals who, as of the date of the employment agreement, constitute the Board of Directors of IAA cease for any reason to constitute at least a majority of the Board of Directors; or (iii) the consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of IAA unless, following such merger, consolidation or disposition, (y) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding voting securities of IAA immediately prior to such merger, consolidation, or disposition beneficially own, directly or indirectly, more than 50% of the voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such merger, consolidation, or disposition in substantially the same proportions as their ownership, immediately prior to such merger, consolidation, or disposition and (z) at least a majority of the members of the Board of Directors of the corporation resulting from such merger, consolidation, or disposition were members of the Board of Directors at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such merger, consolidation or disposition; or (iv) the approval by the stockholders of IAA of a complete liquidation or dissolution of IAA.

Excise Tax Gross-Up

Mr. O'Brien's employment agreement provides that if any payment or benefit due and payable under the agreement causes any excise tax imposed by Section 4999 of the Code to become due and payable by Mr. O'Brien, then IAA will pay to Mr. O'Brien a "gross-up" payment so that he is in the same after-tax position as he would have been had the excise tax not been payable.

Requirements With Respect to Non-Competition and Non-Solicitation

The employment agreement provides that during an 18 month period following his termination of employment for any reason, Mr. O'Brien may not become employed by or engage in any activity or other business substantially similar to or competitive with the business of IAA within the continental United States, Canada and Mexico. In addition, during such 18 month period, Mr. O'Brien may not solicit, aid or induce (i) any employee of IAA to leave IAA; or (ii) any customer, client, vendor, lender, supplier or sales representative of IAA or similar persons engaged in business with IAA to discontinue such relationship or reduce the amount of business done with IAA.

Donald Gottwald

Mr. Gottwald's employment agreement, which became effective as of January 7, 2009 and was further amended on December 20, 2012, provides that Mr. Gottwald is an at-will employee and provides for the following severance and change in control payments.

Termination Due to Mr. Gottwald's Death or Disability

AFC has no obligation to make any severance payments to Mr. Gottwald in the event that his employment is terminated as a result of his death or disability.

Voluntary Termination by Mr. Gottwald or Termination for Cause by AFC

In the event that Mr. Gottwald terminates his employment for other than "good reason" (as defined below) or AFC terminates his employment for "cause" (as defined below), AFC has no obligation to make any severance payments to Mr. Gottwald. For this purpose, "good reason" is defined to mean (i) a material reduction in Mr. Gottwald's base salary; or (ii) a material adverse alteration in Mr. Gottwald's authority, duties, responsibilities or position. Notwithstanding the foregoing, the following are not deemed to constitute "good reason": (i) an isolated insubstantial and inadvertent action not taken in bad faith and which is remedied by AFC promptly after receipt of notice thereof given by Mr. Gottwald; or (ii) a change in the person to whom (but not the position to which) Mr. Gottwald reports. Further, "cause" means, as determined in good faith by the Board of Directors of KAR Auction Services, Mr. Gottwald's willful engagement in illegal conduct of misconduct which is injurious to AFC or one of its affiliates.

Termination for Other Reasons

In the event that Mr. Gottwald terminates his employment for good reason or AFC terminates his employment for any reason other than cause (and provided that Mr. Gottwald signs and does not revoke a general release of claims against AFC, its affiliates and their directors, officers and employees), Mr. Gottwald will be entitled to receive in monthly installments payable over two years, an amount equal to one times his base salary at the time of termination. Mr. Gottwald will also be reimbursed by AFC for the payments which he makes for the continuation of group healthcare coverage during the 18 month period in which he is eligible for benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

Outstanding Equity Awards at Fiscal Year-End For 2012

	Option Awards				
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)
James Hallett	43,684.92(1)			100.00(2)	(3)
			131,054.76(5)	100.00(2)	(4)
	18,750.00(6)	18,750.00(6)		13.46	03/01/2020
			112,500.00(7)	13.46	03/01/2020
Eric Loughmiller	12,812.00(1)			100.00(2)	(3)
			38,436.00(5)	100.00(2)	(4)
Thomas Caruso	43,970.00(8)			10.00	08/20/2017
			131,910.00(9)	10.00	08/20/2017
	13,700.00(10)			16.68	08/19/2018
			41,100.00(11)	16.68	08/19/2018
	22,390.00(6)	22,390.00(6)		13.46	03/01/2020
			134,340.00(7)	13.46	03/01/2020
	25,000.00(12)	75,000.00(12)		14.44	02/25/2021
Thomas O'Brien	13,732.07(1)			100.00(2)	(3)
			41,196.22(5)	100.00(2)	(4)
	64,485.00(13)			25.62(14)	05/25/2015
			128,971.00(15)	25.62(14)	05/25/2015
Donald Gottwald	70,880.00(16)			10.00	05/06/2019
			237,390.00(17)	10.00	05/06/2019

(1) These Operating Units in KAR LLC were granted on June 15, 2007 and became fully vested on June 15, 2011.

(2) The amount reflected indicates the exercise price of Override Units of KAR LLC. The Override Units have not been subjected to a split or other reclassification and therefore have different and higher exercise prices than the other options presented in this table. These Override Units were granted under the Operating Agreement of KAR LLC and not pursuant to any equity incentive plan of the Company.

(3) There is no expiration date for the KAR LLC Operating Units.

(4) There is no expiration date for the KAR LLC Value Units. Except with respect to the Value Units in KAR LLC held by Mr. Hallett, the Value Units generally will be forfeited only in the event the named executive officer ceases to be employed by KAR LLC or one of its subsidiaries.

(5) These Value Units in KAR LLC were granted on June 15, 2007 and vest upon the achievement of certain performance criteria.

(6) These service options were granted on March 1, 2010 and vest ratably on each of the first four anniversaries of the date of grant.

(7) These exit options were granted on March 1, 2010 and vest upon the achievement of certain performance criteria or immediately upon a change in control of the Company.

(8) These service options were granted on August 20, 2007 and became fully vested on December 10, 2009.

(9) These exit options were granted on August 20, 2007 and vest upon the achievement of certain performance criteria.

(10) These service options were granted on August 19, 2008 and became fully vested on December 10, 2009.

(11) These exit options were granted on August 19, 2008 and vest upon the achievement of certain performance criteria.

(12) These service options were granted on February 25, 2011 and vest ratably on each of the first four anniversaries of the date of grant.

(13) These Operating Units in Axle LLC were granted on May 25, 2005 and became fully vested on May 25, 2008.

(14) The amount reflected indicates the exercise price of Override Units of Axle LLC. The Override Units have not been subjected to a split or other reclassification and therefore have different and higher exercise prices than the other options presented in this table. These Override Units were granted under the Amended and Restated Operating Agreement of Axle LLC and not pursuant to any equity incentive plan of the Company.

(15) These Value Units in Axle LLC were granted on May 25, 2005 and vest upon the achievement of certain performance criteria.

(16) These service options were granted on May 6, 2009 and became fully vested on December 10, 2009.

(17) These exit options were granted on May 6, 2009 and vest upon the achievement of certain performance criteria.

Option Exercises During Fiscal Year 2012

There were no stock options exercised during fiscal year 2012 by the named executive officers.

Potential Payments Upon Termination or Change In Control

The following is a discussion of payments and benefits that would be due to our named executive officers upon certain types of employment terminations or the occurrence of a change in control of the Company.

Annual Incentive Plan

The Annual Incentive Plan, which is governed by the terms and conditions of the Omnibus Plan, provides for the following payments upon the termination of employment scenarios set forth below. Each of the named executive officers participates in the Annual Incentive Plan.

Death, Disability, Retirement. In the event that the employment of any named executive officer is terminated as a result of the named executive officer's death, disability or retirement, such named executive officer will be entitled to receive a pro-rated amount of any incentive award which they otherwise would have been entitled to receive. "Disability" means, for this purpose, the inability of the named executive officer to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment for a certain period of time.

Voluntary Termination or Termination by the Company. Unless otherwise specified in an employment agreement, if the employment of any named executive officer is terminated with or without cause, such named executive officer will forfeit all rights to any incentive award payment under the plan.

Change in Control. Unless otherwise determined by the administrator of the Omnibus Plan or as evidenced in an award agreement or other agreement between the Company and a named executive officer, in the event that a Change in Control (as defined in the Omnibus Plan) occurs during an annual performance period, each named executive officer is entitled to receive on the date of the Change in Control a payment with respect to such annual incentive award calculated based on the actual performance of the applicable performance goals through the date of the Change in Control, as determined by the administrator in its discretion, pro-rated based on the number of days of the annual performance period that have elapsed prior to and including the date of the Change in Control.

Stock Incentive Plan and Omnibus Plan

The Stock Incentive Plan and the Omnibus Plan provide for the following treatment of stock options issued pursuant to the plan upon the termination of employment scenarios or a change in control, as set forth below. As a result of the Stock Incentive Plan being frozen by the Company on December 10, 2009, no additional stock options will be granted under this plan. Since December 10, 2009, all grants of stock options have been and will be made pursuant to the terms of the Omnibus Plan.

Death, Disability or Retirement. In the event that any named executive officer's employment with KAR Auction Services or any subsidiary of KAR Auction Services is terminated by reason of the named executive officer's death, disability or retirement, all options held by the named executive officer that are exercisable as of the date of such termination may be exercised by the named executive officer or the named executive officer's beneficiary until the earlier of (i) one year following the named executive officer's termination of employment; or (ii) the normal expiration date of the options. All options that are not exercisable on the date of such termination of employment shall terminate and be canceled immediately upon such termination of employment.

Voluntary Termination or Termination by the Company. With respect to the Stock Incentive Plan, in the event that any named executive officer's employment with KAR Auction Services or any subsidiary of KAR Auction Services is terminated due to the named executive officer's voluntary resignation without "good reason" (as defined below) or for "cause" (as defined below) by KAR Auction Services or any of its subsidiaries, all options then held by the named executive officer, whether or not then exercisable, shall terminate and be canceled immediately upon such termination of employment. With respect to the Omnibus Plan, in the event that any named executive officer's employment with KAR Auction Services or any subsidiary of KAR Auction Services is terminated due to the named executive officer's voluntary resignation, any options then held by the named executive officer which are exercisable on the date of termination shall be exercisable until the earlier of (i) the 90th day following the named executive officer's termination of employment; or (ii) the normal expiration date of the options. In the event any named executive officer's employment with KAR Auction Services or any subsidiary of KAR Auction Services is terminated for "cause" (as defined below) by KAR Auction Services or any of its subsidiaries, all options then held by the named executive officer, whether or not then exercisable, shall terminate and be canceled immediately upon such termination of employment.

For this purpose, "cause" means, generally: (i) the refusal or neglect of the named executive officer to perform substantially his employment-related duties; (ii) the named executive officer's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty; (iii) the named executive officer's indictment for, conviction of, or entering a plea of guilty or *nolo contendere* to a crime constituting a felony or his willful violation of any applicable law; (iv) the named executive officer's failure to reasonably cooperate, following a request to do so by KAR Auction Services or any of its subsidiaries, in any internal or governmental investigation; or (v) the named executive officer's material breach of any written covenant or agreement not to disclose any information pertaining to KAR Auction Services or any of its subsidiaries or not to compete or interfere with KAR Auction Services or any of its subsidiaries.

Termination Without Cause or For Good Reason. In the event that any named executive officer's employment with KAR Auction Services or any subsidiary of KAR Auction Services is terminated by KAR Auction Services or any of its subsidiaries without cause (as defined above) or by the named executive officer for "good reason" (as defined below), any options then held by the named executive officer which are exercisable on the date of termination shall be exercisable until the earlier of (i) the 90th day following the named executive officer's termination of employment; or (ii) the normal expiration date of the options. Any options held by the named executive officer that are not then exercisable shall terminate and be canceled immediately upon such termination of employment.

Unless specified otherwise in a named executive officer's employment agreement, the termination of a named executive officer's employment with KAR Auction Services or any of its subsidiaries shall be deemed to be for "good reason" if such named executive officer voluntarily terminates his or her employment with the Company or any subsidiary of the Company as a result of (i) the Company or any subsidiary of the Company significantly reducing the named executive officer's current salary without the named executive officer's prior written consent; or (ii) the Company or any subsidiary of the Company taking any action that would substantially diminish the aggregate value of the benefits provided to the named executive officer under the Company's or such subsidiary's accident, disability, life insurance, or any other employee benefit plans in which the named executive officer participates.

Upon the Occurrence of an Exit Event/Change in Control. Upon the occurrence of an Exit Event (as defined in the Stock Incentive Plan), each outstanding and vested service option and each outstanding and vested exit option issued under the Stock Incentive Plan will be canceled in exchange for a cash payment in an amount equal to the excess of the Exit Event Price (as defined in the plan) over the Option Price (as defined in the plan). Upon the occurrence of a Change in Control (as defined in the Omnibus Plan), any unvested or unexercisable portion of any award carrying a right to exercise shall become fully vested and exercisable and the Compensation Committee may cancel all of the outstanding awards under the Omnibus Plan, and in its discretion exchange such awards for cash, shares of the successor entity, or a combination of cash and shares of the successor entity in an amount equal to the excess, if any, of the Fair Market Value (as defined in the Omnibus Plan) of a share of common stock as of the date of the Change in Control over the per share exercise price, if any, of such award.

As noted above, in March 2013, the Board of Directors modified the vesting criteria for outstanding exit options so that such options vest and become exercisable in four tranches contingent upon the closing price of the shares of common stock of the Company exceeding the threshold levels of $20.00, $25.00, $30.00 or $35.00 for 20 consecutive trading days. In connection with that modification, the exit options included in the first tranche (the exit options associated with the $20.00 threshold level) became fully vested.

KAR LLC Agreement

The LLC Agreement provides for the following payments to Messrs. Hallett, O'Brien and Loughmiller who are Management Members of KAR LLC, upon the termination of employment scenarios or a change in control, as set forth below:

Termination for Cause. In the event that a Management Member's employment is terminated for cause, all KAR Override Units issued to such Management Member will immediately be forfeited. "Cause" means, generally: (i) the refusal or neglect of the Management Member to perform substantially his or her employment-related duties; (ii) the Management Member's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty; (iii) the Management Member's indictment for, conviction of, or entering a plea of guilty or nolo contendere to a crime constituting a felony or his or her willful violation of any applicable law; (iv) the Management Member's failure to reasonably cooperate, following a request to do so by the Company, in any internal or governmental investigation; or (v) the Management Member's material breach of any written covenant or agreement not to disclose any information pertaining to the Company or not to compete or interfere with the Company.

Termination for Any Reason Other Than Cause. Provided that an Exit Event (as defined in "Elements Used to Achieve Compensation Philosophy and Objectives—Long Term Incentive Opportunity—Equity Incentives Plans") has not occurred and that a definitive agreement is not in effect regarding a transaction which, if consummated, would result in an Exit Event, then all of the Value Units held by Messrs. O'Brien and Loughmiller will be forfeited. Pursuant to the terms of his employment agreement with the Company, Mr. Hallett will be permitted to retain his KAR LLC Value Units in the case that his employment is terminated for any reason other than cause, as defined in his employment agreement.

Upon the Occurrence of an Exit Event. Upon the occurrence of an Exit Event, all Operating Units that are held by the Management Members shall vest and Value Units held by such Management Members shall vest and become eligible to participate in distributions in accordance with the following schedule:

- No Value Units will vest and participate in distributions unless, upon the occurrence of the Exit Event, the Investor Members receive an internal rate of return, compounded annually, on their investment in KAR LLC of at least 12%, and the Investment Multiple is greater than 1.5.

- A pro-rata portion of the Value Units will vest and participate in distributions if the Investment Multiple is greater than 1.5 but less than 3.5.

- All Value Units will vest and participate in distributions if the Investment Multiple is at least 3.5 and the Investor Members receive an internal rate of return, compounded annually, on their investment in KAR LLC of at least 12%.

All Value Units that do not vest and become eligible to participate in distributions as provided above will be forfeited and canceled immediately following the Exit Event.

Requirements With Respect to Non-Competition and Non-Solicitation. The LLC Agreement provides that, until the later of (i) the date on which the Management Member no longer retains any equity interest in the Company; or (ii) the termination of any severance payable pursuant to any termination or severance agreement, if any, entered into between the Management Member and the Company or any subsidiary of the Company, the Management Member may not become associated with certain entities that are actively engaged, during the 12 months preceding the date such Management Member ceases to hold any equity interest in the Company, in any business that is competitive with the business (or any proposed business) of the Company or any of its subsidiaries in any geographic area in which the Company or any of its subsidiaries does business.

The LLC Agreement also provides that no Management Member shall directly or indirectly induce any employee of the Company or any of its subsidiaries to (i) terminate employment with such entity; or (ii) otherwise interfere with the employment relationship of the Company or any of its subsidiaries with any person who is or was employed by the Company

or such subsidiary. In addition, the LLC Agreement prohibits any Management Member from soliciting or otherwise attempting to establish for himself or herself any business relationship with any person which is, or which was any time during the 12-month period preceding the date such Management Member ceases to hold any equity interest in the Company, a customer or client of or a distributor to the Company or any of its subsidiaries.

Axle LLC Agreement

The Axle LLC Agreement provides for the following payments to Mr. O'Brien, who is the only named executive officer that is a Management Member of Axle LLC, upon the termination of employment scenarios or a change in control, as set forth below.

Termination for Cause. In the event that Mr. O'Brien's employment is terminated for "cause" (as defined in Mr. O'Brien's employment agreement), all Override Units issued to Mr. O'Brien, including vested Override Units, shall be forfeited.

Termination for Any Reason Other Than Cause. All of Mr. O'Brien's Operating Units are vested and, as a result, may only be forfeited upon a termination of his employment for cause (as defined in Mr. O'Brien's employment agreement) or upon the occurrence of an Exit Event as described herein. In the event that Mr. O'Brien's employment is terminated by the Company or one of its subsidiaries for a reason other than cause (as defined in his employment agreement), then Mr. O'Brien's Value Units shall not be forfeited.

Upon the Occurrence of an Exit Event. Upon the occurrence of an Exit Event, all vested Operating Units held by Mr. O'Brien become eligible to participate in distributions. All Value Units held by Mr. O'Brien shall vest and become eligible to participate in distributions in accordance with the following schedule:

- No Value Units will vest unless, upon the occurrence of the Exit Event, the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%, and the Investment Multiple is greater than two.

- A pro-rata portion of the Value Units will vest and participate in distributions if the Investment Multiple is greater than two but less than four, and the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%.

- All Value Units will vest and participate in distributions if the Investment Multiple is at least four, and the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%.

All Value Units that do not vest and become eligible to participate in distributions as provided above will be forfeited and canceled immediately following the Exit Event.

Potential Payments Upon Termination or Change in Control—Tables

The amounts in the tables below assume that the termination and/or change in control, as applicable, was effective as of December 31, 2012, the last business day of the prior fiscal year, and that the respective named executive officers exercised all options and profit interests available to them at such time. The tables are merely illustrative examples of the impact of a hypothetical termination of employment or change in control. The amounts that would actually be paid upon a termination of employment can only be determined at the time of such termination, based on the facts and circumstances then prevailing.

James Hallett

	Severance	Non-Equity Incentive Pay(1)	KAR Stock Options(2)	Axle Override Units Operating Units	Axle Override Units Value Units	KAR Override Units Operating Units(3)	KAR Override Units Value Units(4)	Excise Gross-up	Other (Life Ins)(5)	Total
Death	$559,025	—	$127,125	—	—	$4,348,834	$3,232,271	—	$500,000	$8,767,255
Disability(6)	$559,025	—	$127,125	—	—	$4,348,834	$3,232,271	—	—	$8,267,255
Voluntary Termination	—	—	$127,125	—	—	$4,348,834	—	—	—	$4,475,959
Termination for Cause	—	—	—	—	—	—	—	—	—	—
Term w/o Cause or for Good Reason	$3,264,000	$559,025	$127,125	—	—	$4,348,834	$3,232,271	—	—	$11,531,255
Change in Control (single trigger)	—	$559,025	$1,017,000	—	—	$4,348,834	$3,232,271	—	—	$9,157,130
Termination after Change in Control (double trigger)	$3,264,000	$559,025	$1,017,000	—	—	$4,348,834	$3,232,271	(7)	—	$12,044,965(7)

(1) The amount reported is equal to the amount payable to the named executive officer under the Annual Incentive Plan and assuming payment upon a change in control.

(2) The amount reported assumes a KAR common stock price of $20.24, which was the closing price on December 31, 2012.

(3) The actual value of the Operating Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Operating Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have assumed, based upon the performance of the Company in 2012, an estimated share price of $199.55 per KAR LLC share. See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Operating Units.

(4) The actual value of the Value Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Value Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have made certain assumptions based upon the performance of the company in 2012. Specifically, we have assumed:

- an equity multiple of 2.00;
- an estimated share price of $199.55 per KAR LLC share; and
- an internal rate on the Investor Members' investment in KAR LLC greater than 12%.

See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Value Units.

(5) Under the Group Term Life Policy, Mr. Hallett's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding $500,000.

(6) Long-term disability is a Company-paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

(7) Pursuant to the terms of Mr. Hallett's employment agreement, the amount paid would be reduced to the extent necessary to avoid the imposition of the excise tax under Code Section 4999. The reduction would be in an amount equal to $376,165 and would result in Mr. Hallett receiving a total amount equal to $12,044,965.

Eric Loughmiller

	Severance	Non-Equity Incentive Pay(1)	KAR Stock Options	Axle Override Units Operating Units	Axle Override Units Value Units	KAR Override Units Operating Units(2)	KAR Override Units Value Units(3)	Excise Gross-up	Other (Life Ins)(4)	Total
Death	—	$218,549	—	—	—	$1,275,435	—	—	$500,000	$1,993,984
Disability(5)	—	$218,549	—	—	—	$1,275,435	—	—	—	$1,493,984
Voluntary Termination	—	—	—	—	—	$1,275,435	—	—	—	$1,275,435
Termination for Cause	—	—	—	—	—	—	—	—	—	—
Term w/o Cause or for Good Reason	—	—	—	—	—	$1,275,435	—	—	—	$1,275,435
Change in Control (single trigger)	—	$218,549	—	—	—	$1,275,435	$947,967	—	—	$2,441,951
Termination after Change in Control (double trigger)	—	$218,549	—	—	—	$1,275,435	$947,967	—	—	$2,441,951

(1) The amount reported is equal to the amount payable to the named executive officer under the Annual Incentive Plan and assuming payment upon a change in control.

(2) The actual value of the Operating Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Operating Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have assumed, based upon the performance of the Company in 2012, an estimated share price of $199.55 per KAR LLC share. See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Operating Units.

(3) The actual value of the Value Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Value Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have made certain assumptions based upon the performance of the company in 2012. Specifically, we have assumed:

- an equity multiple of 2.00;
- an estimated share price of $199.55 per KAR LLC share; and
- an internal rate on the Investor Members' investment in KAR LLC greater than 12%.

See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Value Units.

(4) Under the Group Term Life Policy, Mr. Loughmiller's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding $500,000.

(5) Long-term disability is a Company-paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

Thomas Caruso

	Severance	Non-Equity Incentive Pay(1)	KAR Stock Options(2)	Axle Override Units Operating Units	Axle Override Units Value Units	KAR Override Units Operating Units	KAR Override Units Value Units	Excise Gross-up	Other (Life Ins)(3)	Total
Death	—	$438,467	$795,870	—	—	—	—	—	$500,000	$1,734,337
Disability(4)	—	$438,467	$795,870	—	—	—	—	—	—	$1,234,337
Voluntary Termination	—	—	$296,804	—	—	—	—	—	—	$296,804
Termination for Cause	—	—	—	—	—	—	—	—	—	—
Term w/o Cause or for Good Reason	—	—	$795,870	—	—	—	—	—	—	$795,870
Change in Control (single trigger)	—	$438,467	$2,293,500	—	—	—	—	—	—	$2,731,967
Termination after Change in Control (double trigger)	—	$438,467	$2,293,500	—	—	—	—	—	—	$2,731,967

(1) The amount reported is equal to the amount payable to the named executive officer under the Annual Incentive Plan and assuming payment upon a change in control.

(2) The amount reported assumes a KAR common stock share price of $20.24 which was the closing price on December 31, 2012.

(3) Under the Group Term Life Policy, Mr. Caruso's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding $500,000.

(4) Long-term disability is a Company-paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

Thomas O'Brien

				Axle Override Units		KAR Override Units				
	Severance	Non-Equity Incentive Pay(1)	KAR Stock Options	Operating Units(2)	Value Units(3)	Operating Units(4)	Value Units(5)	Excise Gross-up	Other (Life Ins)(7)	Total
Death	$619,870	—	—	$4,605,067	—	$1,367,028	—	—	$500,000	$7,091,965
Disability(6)	$619,870	—	—	$4,605,067	—	$1,367,028	—	—	—	$6,591,965
Voluntary Termination	—	—	—	$4,605,067	—	$1,367,028	—	—	—	$5,972,095
Termination for Cause	—	—	—	—	—	—	—	—	—	—
Term w/o Cause or for Good Reason	$1,038,170	—	—	$4,605,067	—	$1,367,028	—	—	—	$7,010,265
Change in Control (single trigger)	—	$312,080	—	$4,605,067	$8,230,588	$1,367,028	$1,016,043	—	—	$15,530,806
Termination after Change in Control (double trigger)	$1,707,411	$312,080	—	$4,605,067	$8,230,588	$1,367,028	$1,016,043	—	—	$17,238,217

(1) The amount reported is equal to the amount payable to the named executive officer under the Annual Incentive Plan and assuming payment upon a change in control.

(2) The actual value of the Operating Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Operating Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have assumed, based upon the performance of the Company in 2012, an estimated share price of $97.03 per Axle LLC share. See "Compensation Discussion and Analysis—Axle LLC Override Units" for a description of the Operating Units.

(3) The actual value of the Value Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Value Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have made certain assumptions based upon the performance of the Company in 2012. Specifically, we have assumed:

- an equity multiple of 3.79;
- an estimated share price of $97.03 per Axle LLC share; and
- an internal rate on the Investor Members' investment in Axle LLC greater than 12%.

See "Compensation Discussion and Analysis—Axle LLC Override Units" for a description of the Value Units.

(4) The actual value of the Operating Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Operating Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have assumed, based upon the performance of the Company in 2012, an estimated share price of $199.55 per KAR LLC share. See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Operating Units.

(5) The actual value of the Value Units cannot be determined until such time as an Exit Event occurs and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Value Units assuming an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have made certain assumptions based upon the performance of the company in 2012. Specifically, we have assumed:

- an equity multiple of 2.00;
- an estimated share price of $199.55 per KAR LLC share; and
- an internal rate on the Investor Members' investment in KAR LLC greater than 12%.

See "Compensation Discussion and Analysis—KAR LLC Override Units" for a description of the Value Units.

(6) Long-term disability is a Company-paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

(7) Under the Group Term Life Policy, Mr. O'Brien's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding $500,000.

Donald Gottwald

	Severance	Non-Equity Incentive Pay(1)	KAR Stock Options(2)	Axle Override Units Operating Units	Axle Override Units Value Units	KAR Override Units Operating Units	KAR Override Units Value Units	Excise Gross-up	Other (Life Ins)(3)	Total
Death	—	$361,435	$725,811	—	—	—	—	—	$500,000	$1,587,246
Disability(4)	—	$361,435	$725,811	—	—	—	—	—	—	$1,087,246
Voluntary Termination	—	—	—	—	—	—	—	—	—	—
Termination for Cause	—	—	—	—	—	—	—	—	—	—
Term w/o Cause or for Good Reason	$438,564	—	$725,811	—	—	—	—	—	—	$1,164,375
Change in Control (single trigger)	—	$361,435	$725,811	—	—	—	—	—	—	$1,087,246
Termination after Change in Control (double trigger)	$438,564	$361,435	$725,811	—	—	—	—	—	—	$1,525,810

(1) The amount reported is equal to the amount payable to the named executive officer under the Annual Incentive Plan and assuming payment upon a change in control.

(2) The amount reported assumes a KAR common stock share price of $20.24 which was the closing price on December 31, 2012.

(3) Under the Group Term Life Policy, Mr. Gottwald's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding $500,000.

(4) Long-term disability is a Company-paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at $10,000 per month.

BENEFICIAL OWNERSHIP OF THE COMPANY'S COMMON STOCK

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 17, 2013 of: (1) each person or entity who owns of record or beneficially 5% or more of any class of KAR Auction Services' voting securities of which 137,105,649 shares were outstanding as of April 17, 2013; (2) each of our directors, director nominees and executive officers; and (3) all of our directors, director nominees and executive officers as a group. Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each stockholder will have sole voting and investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated in a footnote to the following table. Unless otherwise indicated in a footnote, the business address of each person is our corporate address, c/o KAR Auction Services, Inc. 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

	Shares Beneficially Owned	
Name of Beneficial Owner	**Number of Shares(1)**	**Percent of Class(2)**
KAR Holdings II, LLC	76,378,660	55.7%
KELSO GROUP:		
Kelso Investment Associates VII, L.P.(3)(4)	32,396,910	23.6%
KEP VI, LLC(3)(4)	32,396,910	23.6%
Frank T. Nickell(3)(4)(5)	32,396,910	23.6%
Thomas R. Wall, IV(3)(4)(5)	32,396,910	23.6%
George E. Matelich(3)(4)(5)	32,396,910	23.6%
Michael B. Goldberg(3)(4)(5)(6)	32,396,910	23.6%
David I. Wahrhaftig(3)(4)(5)	32,396,910	23.6%
Frank K. Bynum, Jr.(3)(4)(5)	32,396,910	23.6%
Philip E. Berney(3)(4)(5)	32,396,910	23.6%
Frank J. Loverro(3)(4)(5)	32,396,910	23.6%
James J. Connors, II(3)(4)(5)	32,396,910	23.6%
Church M. Moore(3)(4)(5)(6)	32,396,910	23.6%
Stanley de J. Osborne(3)(4)(5)	32,396,910	23.6%
Christopher L. Collins(3)(4)(5)	32,396,910	23.6%
Howard A. Matlin(3)(4)(5)	32,396,910	23.6%
GOLDMAN GROUP:		
GS Capital Partners VI Fund, L.P. and related funds(7)(8)	19,358,007	14.1%
VALUEACT GROUP:		
ValueAct Capital Master Fund, L.P.(9)(10)(23)(25)	16,935,298	12.4%
AXLE HOLDINGS II, LLC(3)(24)	19,532,603	14.2%
EXECUTIVE OFFICERS AND DIRECTORS		
David J. Ament(27)	—	—
Kelly J. Barlow	—	—
Ryan M. Birtwell	—	—
Warren W. Byrd(13)	85,036	*
Thomas J. Carella(6)(8)(21)(22)	19,358,007	14.1%
Thomas J. Caruso(14)	221,681	*
Brian T. Clingen(6)(11)	988,336	*
Robert M. Finlayson(6)	16,237	*
Peter R. Formanek(6)	23,050	*
Michael B. Goldberg(3)(4)(5)(6)(22)	32,396,910	23.6%
Donald S. Gottwald(15)	130,227	*
James P. Hallett(6)(12)	127,944	*
Peter J. Kelly(26)	87,500	*
Eric M. Loughmiller(16)	15,052	*
Sanjeev Mehra(6)(8)(21)(22)	19,358,007	14.1%
Church M. Moore(3)(4)(5)(6)(22)	32,396,910	23.6%
Thomas C. O'Brien(6)(17)	19,964	*
Rebecca C. Polak(18)	82,690	*
Benjamin Skuy(19)	152,039	*
Gregory P. Spivy	—	—
David J. Vignes(20)	136,234	*
Jonathan P. Ward(6)	16,405	*
Executive officers and directors as a group (22 persons)(22)	53,857,312	39.3%

* Less than one percent

(1) The number of shares includes shares of common stock subject to options exercisable within 60 days of April 17, 2013.

(2) Shares subject to options exercisable within 60 days of April 17, 2013 are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others. Percentages for KAR LLC, Axle LLC, the members of the Kelso Group, the members of the Goldman Group and ValueAct Capital are reflective of beneficial ownership of KAR LLC common interests (which, in certain cases, includes beneficial ownership of KAR LLC common interests held by Axle LLC). Except as indicated, percentages for executive officers and directors are reflective of beneficial ownership of outstanding shares of KAR Auction Services (including shares that may be deemed to be owned by virtue of common ownership interests in KAR LLC or Axle LLC, as applicable).

(3) The business address for these persons is c/o Kelso & Company, 320 Park Avenue, 24th Floor, New York, NY 10022.

(4) Includes (i) 13,209,424 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Kelso Investment Associates VII, L.P., a Delaware limited partnership, or KIA VII, ownership interest in Axle LLC, (ii) 3,270,904 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of KEP VI, LLC, a Delaware limited liability company, or KEP VI, ownership interest in Axle LLC, (iii) 12,757,566 of common stock held of record by KAR LLC, by virtue of KIA VII's ownership interest in KAR LLC and (iv) 3,159,016 shares of common stock held of record by KAR LLC, by virtue of KEP VI's ownership interest in KAR LLC. Kelso GP VII, LLC, a Delaware limited liability company, or GP VII, LLC, is the general partner of Kelso GP VII, L.P., a Delaware limited partnership, or GP VII, L.P. GP VII, L.P. is the general partner of KIA VII. KIA VII is the majority owner of KAR LLC. Each of GP VII, LLC, GP VII, L.P., and KIA VII disclaims beneficial ownership of the shares owned of record by KAR LLC, except to the extent of their respective pecuniary interests therein. Each of GP VII, LLC, GP VII , L.P., and KIA VII, due to their common control, could be deemed to beneficially own each other's securities. GP VII, LLC disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII L.P. and KIA VII except to the extent of its pecuniary interest therein. GP VII, L.P. disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC and KIA VII, except, in the case of KIA VII, to the extent of its pecuniary interest therein. KIA VII disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC and GP VII, L.P., except to the extent of its pecuniary interest therein, if any. KIA VII and KEP VI, due to their common control, could be deemed to beneficially own each of the other's shares. KEP VI disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC, GP VII L.P. and KIA VII. Each of GP VII, LLC, GP VII L.P. and KIA VII disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by KEP VI. KEP VI disclaims beneficial ownership of the shares owned of record by KAR Holdings, LLC, except to the extent of its pecuniary interest therein.

(5) Messrs. Berney, Bynum, Goldberg, Loverro, Matelich, Nickell, Wahrhaftig, Wall, Connors, Osborne, Moore, Collins and Matlin may be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by KIA VII, by virtue of their status as managing members of GP VII, LLC, but disclaim beneficial ownership of such securities. Messrs. Berney, Bynum, Goldberg, Loverro, Matelich, Nickell, Wahrhaftig, Wall, Connors, Osborne, Moore, Collins and Matlin may also be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by KEP VI, by virtue of their status as managing members of KEP VI, but disclaim beneficial ownership of such interests.

(6) Members of our Board of Directors.

(7) Shares reported are held of record by KAR LLC but are beneficially owned directly by GS Capital Partners VI Fund, L.P., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG, GS Capital Partners VI Offshore Fund, L.P. GSCP VI Advisors, L.L.C., GSCP VI Offshore Advisors, L.L.C., Goldman, Sachs Management GP GMBH and GS Advisors VI, L.L.C., together, the GSCP Entities. Affiliates of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. are the general partner, managing limited partner or the managing partner of each of the GSCP Entities. Goldman, Sachs & Co. is the investment manager for certain of the GSCP Entities. Goldman, Sachs & Co. is a direct and indirect, wholly-owned subsidiary of The Goldman Sachs Group, Inc. The

Goldman Sachs Group, Inc. is a public entity and its common stock is publicly traded on the NYSE. The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and the GSCP Entities share voting and investment power with certain of their respective affiliates. Each of The Goldman Sachs Group Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the GSCP Entities, except to the extent of its pecuniary interest therein, if any.

(8) The business address for these persons is c/o Goldman, Sachs & Co., 200 West Street, New York, NY 10282.

(9) Includes 16,131,670 shares of common stock held of record by KAR LLC but is beneficially owned directly by ValueAct Capital Master Fund, L.P. by virtue of ValueAct Capital Master Fund, L.P.'s ownership interest in KAR LLC and may be deemed to be beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC, and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.

(10) The business address for these persons is c/o ValueAct Capital, 435 Pacific Avenue, 4th Floor, San Francisco, CA 94133.

(11) Includes (i) 271,373 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. Clingen's common ownership interest in Axle LLC, and (ii) 716,963 shares of common stock held of record by KAR LLC, by virtue of Mr. Clingen's common ownership interest in KAR LLC.

(12) Includes (i) 56,250 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013, and (ii) 71,694 shares of common stock held of record by KAR LLC, by virtue of Mr. Hallett's common ownership interest in KAR LLC.

(13) Includes (i) 81,447 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013, and (ii) 3,589 shares of common stock held of record by KAR LLC, by virtue of Mr. Byrd's common ownership interest in KAR LLC.

(14) Includes (i) 218,092 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013, and (ii) 3,589 shares of common stock held of record by KAR LLC, by virtue of Mr. Caruso's common ownership interest in KAR LLC.

(15) Includes 130,227 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013.

(16) Includes (i) 2,152 shares of common stock held of record by KAR LLC, by virtue of Mr. Loughmiller's common ownership interest in KAR LLC, and (ii) 12,900 shares of common stock owned by Mr. Loughmiller.

(17) Includes (i) 18,527 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. O'Brien's common ownership interest in Axle LLC, and (ii) 1,437 shares of common stock held of record by KAR LLC, by virtue of Mr. O'Brien's common ownership interest in KAR LLC.

(18) Includes (i) 5,375 shares of common stock held of record by KAR LLC, by virtue of Ms. Polak's common ownership interest in KAR LLC, and (ii) 77,315 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013.

(19) Includes (i) 129,112 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013, (ii) 17,927 shares of common stock held of record by KAR LLC, by virtue of Mr. Skuy's common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Skuy.

(20) Includes (i) 128,725 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013, (ii) 2,509 shares of common stock held of record by KAR LLC, by virtue of Mr. Vignes' common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Vignes.

(21) Messrs. Mehra and Carella are managing directors of Goldman, Sachs & Co. Mr. Mehra, Mr. Carella and The Goldman Sachs Group, Inc. each disclaims beneficial ownership of the common stock owned directly or indirectly by the GSCP Entities and Goldman, Sachs & Co., except to the extent of his or its pecuniary interest therein, if any. Each of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the GSCP Entities, except to the extent of its pecuniary interest therein, if any.

(22) Includes shares of common stock the beneficial ownership of which (i) Mr. Goldberg may be deemed to share, as described in footnote 5 above, (ii) Mr. Moore may be deemed to share, as described in footnote 5 above, (iii) Mr. Mehra may be deemed to share, as described in footnote 21 above, and (vi) Mr. Carella may be deemed to share, as described in footnote 21 above.

(23) 803,628 shares of common stock directly beneficially owned by ValueAct Capital Master Fund, L.P. and may be deemed to be indirectly beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock, except to the extent of their pecuniary interest therein.

(24) Axle may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC by virtue of its status as a member of KAR LLC. Axle shares investment and voting power along with certain other members of KAR LLC with respect to the securities owned by KAR LLC, but disclaims beneficial ownership of such securities. KIA VII and KEP VI, due to their ownership interest in Axle, could be deemed to share beneficial ownership of securities owned of record by Axle. KIA VII and KEP VI share investment and voting power along with certain other members of Axle with respect to securities owned by Axle, but disclaim beneficial ownership of such common shares except to the extent of their pecuniary interest therein.

(25) Messrs. Jeffrey W. Ubben, G. Mason Morfit and George F. Hamel may be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by ValueAct Holdings GP, LLC, by virtue of serving on the management board of ValueAct Holdings GP, LLC, but disclaim beneficial ownership of such common shares.

(26) Includes 87,500 shares of common stock issuable pursuant to options that are exercisable within 60 days of April 17, 2013.

(27) Certain entities affiliated with Mr. Ament are members of KAR LLC. None of such entities have voting or dispositive power with respect to the common stock owned by KAR LLC.

CERTAIN RELATED PARTY RELATIONSHIPS

Review and Approval of Transactions with Related Persons

Pursuant to our written related party transaction policy, the Company reviews relationships and transactions in which the Company, or one of its business units, and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest.

In the course of the review and approval of a related party transaction, the Board of Directors or the Audit Committee may consider the following factors:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to the Company;
- whether the transaction would impair the judgment of a director or executive officer to act in our best interest; and
- any other matters that we deem appropriate.

Transactions in which the amount involved exceeds $120,000 in which the Company, or one of its business units, was a participant and a related person had a direct or indirect material interest are disclosed in this proxy statement.

Agreements in Connection with the 2007 Transactions

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, which was wholly- owned by KAR LLC prior to the Company's initial public offering. These events are referred to herein as the "2007 Transactions." Upon consummation of the 2007 Transactions, the Company entered into the agreements described below.

Tag Along Rights. The IAA continuing investors (as defined below) and KAR LLC entered into an agreement which granted the IAA continuing investors "tag-along rights" to sell their shares of common stock on a pro rata basis with KAR LLC in sales by KAR LLC to third parties. The "IAA continuing investors" are Thomas C. O'Brien, Scott P. Pettit, David R. Montgomery, Donald J. Hermanek, John W. Kett, John R. Nordin and Sidney L. Kerley.

Registration Rights Agreement. We entered into a registration rights agreement with KAR LLC and the IAA continuing investors. Under the terms of the registration rights agreement, KAR LLC (at the request of the initiating holders (i.e., two of Kelso, ValueAct Capital and Goldman, Sachs & Co.)) will have the right, subject to certain conditions, to make an unlimited number of requests that we use our best efforts to register under the Securities Act of 1933, as amended, the shares of our common stock owned by KAR LLC. In any demand registration, or if KAR Auction Services proposes to register any shares (subject to certain exceptions, such as benefit plan registrations), all of the parties to the registration rights agreement have "piggyback rights" to participate on a pro rata basis, subject to certain conditions, which in the case of KAR LLC will include the right of each member of KAR LLC to direct KAR LLC to include shares of common stock attributable to each such member of KAR LLC based on such member's ownership interest in KAR LLC.

In 2012 and 2013, KAR LLC exercised its rights under the registration rights agreement and caused us to file a registration statement under the Securities Act. In December 2012, pursuant to the registration statement, KAR LLC sold 15,525,000 of its shares in KAR Auction Services. We incurred expenses of $0.6 million related to such sale and we received no proceeds from the sale. In March 2013, pursuant to the registration statement, KAR LLC sold 14,950,000 of its shares in KAR Auction Services. We incurred expenses of $0.7 million related to such sale and we received no proceeds from the sale.

LLC Agreement. Affiliates or designees of the Equity Sponsors, Axle LLC, certain of our executive officers and other employees and third parties entered into a second amended and restated limited liability company agreement of KAR LLC, or the LLC Agreement. The Equity Sponsors and their affiliates or designees and certain of our executive officers and other employees and third parties hold all of the Class A common units in KAR LLC. In addition, Axle LLC owns all of the Class B common units in KAR LLC. The Class B common units are identical to the Class A common units in all respects, except with respect to distributions. Distributions to holders of units in KAR LLC are made pro rata based on the number of units held by each such holder and the aggregate number of units eligible to participate in the distribution, plus the aggregate amount of distributions to the IAA continuing investors in respect of the options held (or any common stock obtained upon the exercise of such options) by them in Axle Holdings, Inc. that were converted into options to purchase our common stock pursuant to the conversion agreements described below; provided, however, that in order to prevent dilution to the holders (other than Axle LLC) of KAR LLC common units that would be caused by the distribution of amounts to the IAA continuing investors in respect of such options (or any such common stock), the amount available for distribution to Axle LLC in respect of the Class B common units held by Axle LLC is reduced dollar-for-dollar by the net amount distributed to the IAA continuing investors in respect of such converted options (or any common stock obtained upon the exercise of such options) in connection with such distribution. Prior to the completion of the Company's initial public offering, the provisions relating to the Class B common units were revised to reflect and appropriately adjust the dilution to the holders of Class A common units that is caused by the existence of the options held by the IAA continuing investors.

The LLC Agreement generally restricts the transfer of interests in KAR LLC owned by the Equity Sponsors (and their affiliates, designees or permitted transferees), Axle LLC, our management employees and executive officers and the other employees and third parties holding equity interests in KAR LLC (the "Holders"). Exceptions to this restriction include transfers of common interests by our management employees and executive officers party thereto for certain estate planning purposes and certain involuntary transfers by the Holders in connection with a default, foreclosure, forfeiture, divorce, court order or otherwise than by a voluntary decision of the continuing investor (so long as KAR LLC has been given the opportunity to purchase the interests subject to such involuntary transfer). In addition, each Holder has customary pro rata "tag-along" rights to sell their common interests in KAR LLC in the event of a proposed sale that is permitted by the LLC Agreement of common interests in KAR LLC by any of the Equity Sponsors or Axle LLC to a third party. Similarly, if any two of Kelso, Goldman, Sachs & Co. or ValueAct Capital elect to sell 80% or more of their common interests in KAR LLC to a third party, each of the remaining Holders is required to sell (upon exercise of such selling Holders' "drag-along" rights) a pro rata portion of their respective common interests based on their respective ownership of common interests to such third party at the same price as such selling Holders elect to sell their common interests. The LLC Agreement also provides Holders with certain "piggyback rights" with respect to participation in the registration of our shares pursuant to the registration rights agreement, described above.

Conversion Agreements. Each of the IAA continuing investors entered into a separate conversion agreement with us under which such IAA continuing investors exchanged, in connection with the 2007 Transactions, options to purchase common stock of Axle Holdings, Inc. for options to purchase our common stock. As a result of these conversion agreements, certain of the IAA continuing investors hold options to purchase our stock.

Axle LLC Agreement. Affiliates of Kelso, affiliates of Parthenon and Magnetite Asset Investors III, L.L.C., Brian T. Clingen, Dan Simon and the IAA continuing investors entered into the Amended and Restated Operating Agreement of Axle LLC, dated May 25, 2005, or the "Axle LLC Agreement." Affiliates of Kelso and Parthenon and Magnetite and Mr. Clingen and a trust established to monitor the estate of Mr. Simon own approximately 99.9% of the common interests in Axle LLC and the IAA continuing investors own less than 0.4%. The Axle LLC Agreement, among other things, provides that the IAA continuing investors were awarded profit interests in Axle LLC that may entitle such persons to a portion of the future appreciation in the value of the assets of Axle LLC. The holders of profit interests in Axle LLC are not entitled to receive shares of our common stock but are only entitled to participate, to the extent such profit interests are vested, in distributions from Axle LLC to its members (including Kelso and Parthenon and the IAA continuing investors). As a result, the existence of these profit interests only dilute the economic interests of the members in Axle LLC and will not dilute the holders of our common stock.

Financial Advisory Agreements. The Equity Sponsors own the controlling interest in KAR LLC. We pay the Equity Sponsors' travel expenses related to KAR Auction Services, pursuant to the terms contained in certain financial advisory agreements. We paid the Equity Sponsors approximately $0.1 million for travel expenses incurred in 2012. Additionally, the financial advisory agreements provide that KAR Auction Services indemnify the Equity Sponsors and their respective officers, directors, partners, employees, agents and control persons (as such term is used in the Securities Act and the rules and regulations thereunder) against any and all claims, losses and expenses as incurred arising in connection with the merger and the transactions contemplated by the merger agreement (including the financing of the merger) entered into in connection with the 2007 Transactions.

Director Designation Agreement

In connection with the Company's initial public offering, we entered into a director designation agreement that provides for the rights of KAR LLC to directly nominate individuals to our Board of Directors. In an amendment to the KAR LLC Agreement that was effective upon consummation of the initial public offering, the Equity Sponsors agreed to their respective rights to nominate the individuals that KAR LLC has the right to nominate under the director designation agreement, with such allocation to be generally based on the Equity Sponsors' relative indirect ownership of our outstanding common stock.

The director designation agreement provides that, for so long as KAR LLC owns more than 10% of our outstanding common stock, no change will be made to the size of the Board of Directors without the consent of KAR LLC. KAR LLC will have the right to nominate individuals to our Board of Directors at each meeting of stockholders where directors are to be elected and, subject to limited exceptions, we will include in the slate of nominees recommended to our stockholders for election as directors the number of individuals designated by KAR LLC as follows (depending on the percentage ownership of KAR LLC at the time of such election):

- so long as KAR LLC owns more than 50% of our outstanding common stock, seven individuals;
- so long as KAR LLC owns 50% or less but at least 30% of our outstanding common stock, six individuals;
- so long as KAR LLC owns less than 30% but at least 20% of our outstanding common stock, four individuals;
- so long as KAR LLC owns less than 20% but at least 10% of our outstanding common stock, three individuals; and
- so long as KAR LLC owns less than 10% but at least 5% of our outstanding common stock, one individual.

In addition, so long as KAR LLC has the right to nominate one or more directors under the director designation agreement and beneficially owns 50% or less of our outstanding common stock, and, under certain circumstances, including, in the event an Equity Sponsor loses the right to indirectly nominate an individual under the director designation agreement, each Equity Sponsor will have certain rights to appoint an individual to serve as a non-voting observer at meetings of our Board of Directors.

Transactions with Goldman, Sachs & Co. and its Affiliates

GS Capital Partners VI Fund, L.P. and other private equity funds affiliated with Goldman, Sachs & Co. beneficially own approximately 14% of our issued and outstanding common stock. Goldman Sachs Credit Partners L.P., an affiliate of GS Capital Partners VI Fund, L.P., was part of the banking syndicate for our credit facility. Goldman Sachs Credit Partners, L.P. holds $10 million of our Term Loan B. Goldman, Sachs & Co. also was an underwriter of the Company's initial public offering in 2009 and secondary offerings of approximately 15,525,000 shares of our common stock in December 2012 and 14,950,000 million shares of our common stock in March 2013. Goldman, Sachs & Co. was paid an underwriting discount and commission of approximately $3,209,308 and $3,021,768, respectively, for the secondary offerings. Messrs. Mehra and Carella are employed by Goldman, Sachs and Co. and serve as directors of our Board of Directors. Messrs. Mehra and Carella both work in a separate division from the division that assisted with the offerings. Goldman, Sachs & Co. and its affiliates may in the future engage in commercial banking, investment banking or other financial advisory transactions with us and our affiliates.

REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS OF STOCKHOLDERS

In order to submit stockholder proposals for the 2013 annual meeting of stockholders for inclusion in the Company's proxy statement pursuant to SEC Rule 14a-8, materials must be received by the Secretary at the Company's principal office in Carmel, Indiana, no later than December 31, 2013.

The proposals must comply with all of the requirements of SEC Rule 14a-8. Proposals should be addressed to: Rebecca C. Polak, Executive Vice President, General Counsel and Secretary, KAR Auction Services, Inc., 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032. As the rules of the SEC make clear, simply submitting a proposal does not guarantee its inclusion.

The Company's By-Laws also establish an advance notice procedure with regard to director nominations and stockholder proposals that are not submitted for inclusion in the proxy statement, but that a stockholder instead wishes to present directly at an annual meeting. To be properly brought before the 2013 annual meeting, a notice of the nomination or the matter the stockholder wishes to present at the meeting must be delivered to the Secretary at the Company's principal office in Carmel, Indiana (see above), not less than 90 or more than 120 days prior to the first anniversary of the date of this year's annual meeting. As a result, any notice given by or on behalf of a stockholder pursuant to these provisions of the Company's By-Laws (and not pursuant to SEC Rule 14a-8) must be received no earlier than February 12, 2014, and no later than March 14, 2014. All director nominations and stockholder proposals must comply with the requirements of the Company's By-Laws, a copy of which may be obtained at no cost from the Secretary of the Company.

Other than the proposals described in this proxy statement, KAR Auction Services does not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders on the proxy card will have the discretion to vote your shares on any additional matters properly presented for a vote at the annual meeting. If for any unforeseen reason, any one or more of KAR Auction Services' nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

The chairman of the meeting may refuse to allow the transaction of any business not presented beforehand, or to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

APPENDIX A—KAR AUCTION SERVICES, INC. 2009 OMNIBUS STOCK AND INCENTIVE PLAN

KAR AUCTION SERVICES, INC.
2009 OMNIBUS STOCK AND INCENTIVE PLAN,
AS AMENDED APRIL 19, 2013

Section 1. Purpose of Plan.

The name of the Plan is the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan (as amended, the "*Plan*"). The purpose of the Plan is to provide an additional incentive to selected management employees, directors, independent contractors, and consultants of the Company or its Affiliates (as hereinafter defined) whose contributions are essential to the growth and success of the Company's business, in order to strengthen the commitment of such persons to the Company and its Subsidiaries, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company. To accomplish such purposes, the Plan provides that the Company may grant Options, Share Appreciation Rights, Restricted Shares, Other Share-Based Awards, Other Cash-Based Awards or any combination of the foregoing.

Section 2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "*Administrator*" means the Board, or, if and to the extent the Board does not administer the Plan, the Committee in accordance with Section 3 hereof.

(b) "*Affiliate*" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. An entity shall be deemed an Affiliate of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

(c) "*Award*" means any Option, Share Appreciation Right, Restricted Share, Other Share-Based Award or Other Cash-Based Award granted under the Plan.

(d) "*Award Agreement*" means any written agreement, contract or other instrument or document evidencing an Award.

(e) "*Bylaws*" mean the amended and restated bylaws of the Company, as may be amended and/or restated from time to time.

(f) "*Beneficial Owner*" (or any variant thereof) has the meaning defined in Rule 13d-3 under the Exchange Act.

(g) "*Board*" means the Board of Directors of the Company.

(h) "*Cause*" shall have the meaning assigned to such term in any individual employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or the agreement does not define "Cause," Cause shall mean (*i*) the refusal or neglect of the Participant to perform substantially his or her employment-related duties, (*ii*) the Participant's personal dishonesty, incompetence, willful misconduct or breach of fiduciary duty, (*iii*) the Participant's indictment for, conviction of or entering a plea of guilty or *nolo contendere* to a crime constituting a felony or his or her willful violation of any applicable law (other than a traffic violation or other offense or violation outside of the course of employment which in no way adversely affects the Company and its Subsidiaries or their reputation or the ability of the Participant to perform his or her employment-related duties or to represent the Company or any Subsidiary of the Company that employs such Participant), (*iv*) the Participant's failure to reasonably cooperate, following a request to do so by the Company, in any internal or governmental investigation of the Company or any of its Subsidiaries or (*v*) the Participant's material breach of any written covenant or agreement with the Company or any of its Subsidiaries not to disclose any information pertaining to the Company or such Subsidiary or not to compete or interfere with the Company or such Subsidiary.

(i) "*Change in Capitalization*" means any (*i*) merger, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (*ii*) dividend (whether in the form of cash, Common Stock or other property), stock split or reverse stock split, (*iii*) combination or exchange of shares, (*iv*) other change in corporate structure or (*v*) declaration of a special dividend (including a cash dividend) or other distribution, which, in any such case, the Administrator determines, in its sole discretion, affects the Shares such that an adjustment pursuant to Section 5 hereof is appropriate.

(j) "*Change in Control*" shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(1) any Person, other than the Investor or its Affiliates, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or any Affiliate thereof) representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or

(2) the following individuals cease for any reason to constitute a majority of the number of directors then serving on the Board: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds ($^{2}/_{3}$) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(3) there is consummated a merger or consolidation of the Company or any Subsidiary thereof with any other corporation, other than a merger or consolidation immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the Board of the entity surviving such merger or consolidation or, if the Company or the entity surviving such merger is then a subsidiary, the ultimate parent thereof; or

(4) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than (*A*) a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company following the completion of such transaction in substantially the same proportions as their ownership of the Company immediately prior to such sale or (*B*) a sale or disposition of all or substantially all of the Company's assets immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the entity to which such assets are sold or disposed or, if such entity is a subsidiary, the ultimate parent thereof.

For each Award that constitutes deferred compensation under Code Section 409A, a Change in Control shall be deemed to have occurred under the Plan with respect to such Award only if a change in the ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company shall also be deemed to have occurred under Code Section 409A.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the holders of Common Stock immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(k) "*Code*" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(l) "*Committee*" means any committee or subcommittee the Board may appoint to administer the Plan. Subject to the discretion of the Board, the Committee shall be composed entirely of individuals who meet the qualifications of a "non-employee director" within the meaning of Rule 16b-3 under the Exchange Act and any other qualifications required by the applicable stock exchange on which the Common Stock is traded. With respect to the

approval and payment of any Award intended to be "qualified performance-based compensation" under Code Section 162(m), the Committee shall be composed entirely of individuals who meet the qualifications of an "outside director" within the meaning of Code Section 162(m). If at any time or to any extent the Board shall not administer the Plan, then the functions of the Administrator specified in the Plan shall be exercised by the Committee. Except as otherwise provided in the Articles of Incorporation or Bylaws, any action of the Committee with respect to the administration of the Plan shall be taken by a majority vote at a meeting at which a quorum is duly constituted or unanimous written consent of the Committee's members.

(m) "*Common Stock*" means the common stock, par value $.01 per share, of the Company.

(n) "*Company*" means KAR Auction Services, Inc., a Delaware corporation (or any successor corporation, except as the term "Company" is used in the definition of "Change in Control" above).

(o) "*Covered Employee*" shall have the meaning set forth in Code Section 162(m).

(p) "*Disability*" shall have the meaning assigned to such term in any individual employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or the agreement does not define "Disability," Disability means, with respect to any Participant, that such Participant (*i*) as determined by the Administrator in its sole discretion, is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months, or (*ii*) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company or an Affiliate thereof.

(q) "*Eligible Recipient*" means an employee, director, independent contractor or consultant of the Company or any Affiliate of the Company who has been selected as an eligible participant by the Administrator; provided, however, to the extent required to avoid the imposition of additional taxes under Code Section 409A, an Eligible Recipient means an employee, director, independent contractor or consultant of the Company or any Subsidiary of the Company who has been selected as an eligible participant by the Administrator.

(r) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(s) "*Exercise Price*" means, with respect to any Award under which the holder may purchase Shares, the price per share at which a holder of such Award granted hereunder may purchase Shares issuable upon exercise of such Award.

(t) "*Fair Market Value*" as of a particular date shall mean the fair market value of a share of Common Stock as determined by the Administrator in its sole discretion; *provided*, *however*, that (*i*) if the Common Stock is admitted to trading on a national securities exchange, the fair market value of a share of Common Stock on any date shall be the closing sale price reported for such share on such exchange on such date or, if no sale was reported on such date, on the last day preceding such date on which a sale was reported, or (*ii*) if the shares of Common Stock are not then listed on the New York Stock Exchange, the average of the highest reported bid and lowest reported asked prices for the shares of Common Stock as reported by the National Association of Securities Dealers, Inc. Automated Quotations System for the last preceding date on which there was a sale of such stock in such market, or (3) if the shares of Common Stock are not then listed on a national securities exchange or traded in an over-the-counter market or the value of such shares is not otherwise determinable, such value as determined by the Committee in good faith and in accordance with Code Section 409A.

(u) "*Investor*" means KAR Holdings II, LLC, a Delaware limited liability company.

(v) "*Option*" means an option to purchase shares of Common Stock granted pursuant to Section 7 hereof.

(w) "*Other Cash-Based Award*" means a cash Award granted to a Participant under Section 10 hereof, including cash awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan.

(x) "*Other Share-Based Award*" means a right or other interest granted to a Participant under the Plan that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock, including, but not limited to, unrestricted Shares, restricted stock units, dividend equivalents or performance units, each of which may be subject to the attainment of Performance Goals or a period of continued employment or other terms or conditions as permitted under the Plan.

(y) "*Participant*" means any Eligible Recipient selected by the Administrator, pursuant to the Administrator's authority provided for in Section 3 below, to receive grants of Options, Share Appreciation Rights, Restricted Shares, Other Share-Based Awards, Other Cash-Based Awards or any combination of the foregoing, and, upon his or her death, his or her successors, heirs, executors and administrators, as the case may be.

(z) "*Performance Goals*" means performance goals based on one or more of the following criteria: (*i*) earnings, including one or more of operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, adjusted EBITDA, economic earnings, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (*ii*) pre-tax income or after-tax income; (*iii*) earnings per Share (basic or diluted); (*iv*) operating profit; (*v*) revenue, revenue growth or rate of revenue growth; (*vi*) return on assets (gross or net), return on investment, return on capital, or return on equity; (*vii*) returns on sales or revenues; (*viii*) operating expenses; (*ix*) stock price appreciation; (*x*) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (*xi*) implementation or completion of critical projects or processes; (*xii*) cumulative earnings per share growth; (*xiii*) operating margin or profit margin; (*xiv*) cost targets, reductions and savings, productivity and efficiencies; (*xv*) strategic business criteria, consisting of one or more objectively determinable objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (*xvi*) objectively determinable personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; and (*xvii*) any combination of, or a specified increase in, any of the foregoing. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company or Affiliate thereof, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no payment shall be made (or no vesting shall occur), levels of performance at which specified payments shall be made (or specified vesting shall occur), and a maximum level of performance above which no additional payment shall be made (or at which full vesting shall occur). Each of the foregoing Performance Goals shall be subject to certification by the Committee; *provided*, that the Committee may specify any reasonable definition of the Performance Goals it uses. Such definitions may provide for equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Affiliate thereof or the financial statements of the Company or any Affiliate thereof, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles (in each case, to the extent not inconsistent with Section 162(m) of the Code, if applicable).

(aa) "*Person*" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (*i*) the Company or any Subsidiary thereof, (*ii*) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary thereof, (*iii*) an underwriter temporarily holding securities pursuant to an offering of such securities, or (*iv*) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(bb) "*Restricted Shares*" means Shares granted pursuant to Section 9 below subject to certain restrictions that lapse at the end of a specified period or periods.

(cc) "*Retirement*" means a termination of a Participant's employment, other than for Cause, on or after the attainment of age 65.

(dd) "*Shares*" means shares of Common Stock reserved for issuance under the Plan, as adjusted pursuant to the Plan, and any successor (pursuant to a merger, consolidation or other reorganization) security.

(ee) "*Share Appreciation Right*" means the right pursuant to an Award granted under Section 8 below to receive an amount equal to the excess, if any, of (*i*) the aggregate Fair Market Value, as of the date such Award or portion thereof is surrendered, of the Shares covered by such Award or such portion thereof, over (*ii*) the aggregate Exercise Price of such Award or such portion thereof.

(ff) "*Subsidiary*" means, with respect to any Person, as of any date of determination, any other Person as to which such first Person owns or otherwise controls, directly or indirectly, more than 50% of the voting shares or other similar interests or a sole general partner interest or managing member or similar interest of such other Person. An entity shall be deemed a Subsidiary of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

Section 3. Administration.

(a) The Plan shall be administered by the Administrator and shall be administered in accordance with the requirements of Code Section 162(m) (but only to the extent necessary and desirable to maintain qualification of Awards under the Plan under Code Section 162(m)) and, to the extent applicable, Rule 16b-3 under the Exchange Act ("*Rule 16b-3*"). The Plan is intended to comply, and shall be administered in a manner that is intended to comply, with Code Section 409A and shall be construed and interpreted in accordance with such intent. To the extent that an Award, issuance and/or payment is subject to Code Section 409A, it shall be awarded and/or issued or paid in a manner that will comply with Code Section 409A, including any applicable regulations or guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto.

(b) Pursuant to the terms of the Plan, the Administrator, subject, in the case of any Committee, to any restrictions on the authority delegated to it by the Board, shall have the power and authority, without limitation:

(1) to select those Eligible Recipients who shall be Participants;

(2) to determine whether and to what extent Options, Share Appreciation Rights, Restricted Shares, Other Share-Based Awards, Other Cash-Based Awards or a combination of any of the foregoing, are to be granted hereunder to Participants;

(3) to determine the number of Shares to be covered by each Award granted hereunder;

(4) to determine the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted hereunder (including, but not limited to, (*i*) the restrictions applicable to Restricted Shares and the conditions under which restrictions applicable to such Restricted Shares shall lapse, (*ii*) the Performance Goals and periods applicable to Awards (if any), (*iii*) the Exercise Price of each Award, (*iv*) the vesting schedule applicable to each Award, (*v*) the number of Shares subject to each Award and (*vi*) subject to the requirements of Code Section 409A (to the extent applicable), any amendments to the terms and conditions of outstanding Awards, including, but not limited to, extending the exercise period of such Awards and accelerating the vesting schedule of such Awards;

(5) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing Options, Share Appreciation Rights, Restricted Shares or Other Share-Based Awards, Other Cash-Based Awards or any combination of the foregoing granted hereunder;

(6) to determine the Fair Market Value;

(7) to determine the duration and purpose of leaves of absence which may be granted to a Participant without constituting termination of the Participant's employment for purposes of Awards granted under the Plan;

(8) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; and

(9) to construe and interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement relating thereto), and to otherwise supervise the administration of the Plan and to exercise all powers and authorities either specifically granted under the Plan or necessary and advisable in the administration of the Plan.

(c) All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company and the Participants. No member of the Board or the Committee, nor any officer or employee of the Company or any Subsidiary thereof acting on behalf of the Board or the Committee, shall be personally liable for any action, omission, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company and of any Subsidiary thereof acting on their behalf shall, to the maximum extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, omission, determination or interpretation.

Section 4. Shares Reserved for Issuance Under the Plan.

(a) Subject to Section 5 hereof, the number of shares of Common Stock that are reserved and available for issuance pursuant to Awards granted under the Plan is 6,492,683 shares. The aggregate Awards granted during any fiscal year to any single individual shall not exceed, subject to adjustment as provided in Section 5 herein: (*i*) 600,000 shares subject to Options or Share Appreciation Rights, (*ii*) 300,000 shares subject to Restricted Shares or Other Share-Based Awards (other than Stock Appreciation Rights) and (*iii*) $5,000,000 with respect to Other Cash-Based Awards.

(b) Shares issued under the Plan may, in whole or in part, be authorized but unissued Shares or Shares that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise. If any Shares subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the Participant, the Shares with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan. Notwithstanding the foregoing, Shares surrendered or withheld as payment of either the exercise price of an Award (including Shares otherwise underlying an Award of a Share Appreciation Right that are retained by the Company to account for the grant price of such Share Appreciation Right) and/or withholding taxes in respect of an Award shall no longer be available for grant under the Plan.

Section 5. Equitable Adjustments.

In the event of any Change in Capitalization, an equitable substitution or proportionate adjustment shall be made, in each case, as may be determined by the Administrator, in its sole discretion, in (*i*) the aggregate number of shares of Common Stock reserved for issuance under the Plan and the maximum number of Shares that may be subject to Awards granted to any Participant in any calendar or fiscal year, (*ii*) the kind, number and Exercise Price subject to outstanding Options and Share Appreciation Rights granted under the Plan, and (*iii*) the kind, number and purchase price of Shares subject to outstanding Restricted Shares or Other Share-Based Awards granted under the Plan, in each case as may be determined by the Administrator, in its sole discretion, *provided*, *however*, that any fractional shares resulting from the adjustment shall be eliminated. Such other equitable substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. Without limiting the generality of the foregoing, in connection with a Change in Capitalization, the Administrator may provide, in its sole discretion, for the cancellation of any outstanding Award granted hereunder in exchange for payment in cash or other property having an aggregate Fair Market Value of the Shares covered by such Award, reduced by the aggregate Exercise Price or purchase price thereof, if any. The Administrator's determinations pursuant to this Section 5 shall be final, binding and conclusive.

Section 6. Eligibility.

The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among Eligible Recipients.

Section 7. Options.

(a) *General.* Each Participant who is granted an Option shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, which Award Agreement shall set forth, among other things, the Exercise Price of the Option, the term of the Option and provisions regarding

exercisability of the Option granted thereunder. The provisions of each Option need not be the same with respect to each Participant. More than one Option may be granted to the same Participant and be outstanding concurrently hereunder. Options granted under the Plan shall be subject to the terms and conditions set forth in this Section 7 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable and set forth in the applicable Award Agreement. Each Option granted hereunder is intended to be a non-qualified Option and is not intended to qualify as an "incentive stock option" within the meaning of Code Section 422.

(b) *Exercise Price.* The Exercise Price of Shares purchasable under an Option shall be determined by the Administrator in its sole discretion at the time of grant, but in no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date of grant.

(c) *Option Term.* The maximum term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten (10) years after the date such Option is granted. Each Option's term is subject to earlier expiration pursuant to the applicable provisions in the Plan and the Award Agreement. Notwithstanding the foregoing, the Administrator shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as the Administrator, in its sole discretion, deems appropriate.

(d) *Exercisability.* Each Option shall be exercisable at such time or times and subject to such terms and conditions, including the attainment of preestablished Performance Goals, as shall be determined by the Administrator in the applicable Award Agreement. The Administrator may also provide that any Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time, in whole or in part, based on such factors as the Administrator may determine in its sole discretion. Notwithstanding anything to the contrary contained herein, an Option may not be exercised for a fraction of a share.

(e) *Method of Exercise.* Options may be exercised in whole or in part by giving written notice of exercise to the Company specifying the number of Shares to be purchased, accompanied by payment in full of the aggregate Exercise Price of the Shares so purchased in cash or its equivalent, as determined by the Administrator. As determined by the Administrator, in its sole discretion, with respect to any Option or category of Options, payment in whole or in part may also be made (*i*) by means of consideration received under any cashless exercise procedure approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise), (*ii*) in the form of unrestricted Shares already owned by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (*iii*) any other form of consideration approved by the Administrator and permitted by applicable law or (*iv*) any combination of the foregoing.

(f) *Rights as Shareholder.* A Participant shall have no rights to dividends or any other rights of a shareholder with respect to the Shares subject to an Option until the Participant has given written notice of the exercise thereof, has paid in full for such Shares and has satisfied the requirements of Section 14 hereof.

(g) *Termination of Employment or Service.*

(1) Unless the applicable Award Agreement provides otherwise, in the event that the employment or service of a Participant with the Company and all Affiliates thereof shall terminate for any reason other than Cause, Retirement, Disability, or death, (*A*) Options granted to such Participant, to the extent that they are exercisable at the time of such termination, shall remain exercisable until the date that is ninety (90) days after such termination, on which date they shall expire, and (*B*) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. The ninety (90) day period described in this Section 7(g)(1) shall be extended to one (1) year after the date of such termination in the event of the Participant's death during such ninety (90) day period. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(2) Unless the applicable Award Agreement provides otherwise, in the event that the employment or service of a Participant with the Company and all Affiliates thereof shall terminate on account of Retirement, Disability or the death of the Participant, (*A*) Options granted to such Participant, to the extent that they were exercisable at the time of such termination, shall remain exercisable until the date that is one (1) year after such termination, on which date they shall expire and (*B*) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(3) In the event of the termination of a Participant's employment or service for Cause, all outstanding Options granted to such Participant shall expire at the commencement of business on the date of such termination.

(h) *Other Change in Employment Status.* An Option shall be affected, both with regard to vesting schedule and termination, by leaves of absence, changes from full-time to part-time employment, partial disability or other changes in the employment status of an Participant, in the discretion of the Administrator.

Section 8. Share Appreciation Rights.

(a) *General.* Share Appreciation Rights may be granted either alone ("*Free Standing Rights*") or in conjunction with all or part of any Option granted under the Plan ("*Related Rights*"). Related Rights may be granted either at or after the time of the grant of such Option. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, grants of Share Appreciation Rights shall be made, the number of Shares to be awarded, the price per Share, and all other conditions of Share Appreciation Rights. Notwithstanding the foregoing, no Related Right may be granted for more Shares than are subject to the Option to which it relates and any Share Appreciation Right must be granted with an Exercise Price not less than the Fair Market Value of Common Stock on the date of grant. The provisions of Share Appreciation Rights need not be the same with respect to each Participant. Share Appreciation Rights granted under the Plan shall be subject to the following terms and conditions set forth in this Section 8 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable, as set forth in the applicable Award Agreement.

(b) *Awards; Rights as Shareholder.* The prospective recipient of a Share Appreciation Right shall not have any rights with respect to such Award, unless and until such recipient has executed an Award Agreement and delivered a fully executed copy thereof to the Company, within a period of sixty (60) days (or such other period as the Administrator may specify) after the award date. Participants who are granted Share Appreciation Rights shall have no rights as shareholders of the Company with respect to the grant or exercise of such rights.

(c) *Exercisability.*

(1) Share Appreciation Rights that are Free Standing Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator in the applicable Award Agreement.

(2) Share Appreciation Rights that are Related Rights shall be exercisable only at such time or times and to the extent that the Options to which they relate shall be exercisable in accordance with the provisions of Section 7 above and this Section 8 of the Plan.

(d) *Payment Upon Exercise.*

(1) Upon the exercise of a Free Standing Right, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value to the excess of the Fair Market Value as of the date of exercise over the price per share specified in the Free Standing Right multiplied by the number of Shares in respect of which the Free Standing Right is being exercised, with the Administrator having the right to determine the form of payment.

(2) A Related Right may be exercised by a Participant by surrendering the applicable portion of the related Option. Upon such exercise and surrender, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value to the excess of the Fair Market Value as of the date of exercise over the Exercise Price specified in the related Option multiplied by the number of Shares in respect of which the Related Right is being exercised, with the Administrator having the right to determine the form of payment. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been so exercised.

(3) Notwithstanding the foregoing, the Administrator may determine to settle the exercise of a Share Appreciation Right in cash (or in any combination of Shares and cash).

(e) *Termination of Employment or Service.*

(1) In the event of the termination of employment or service with the Company and all Affiliates thereof of a Participant who has been granted one or more Free Standing Rights, such rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator in the applicable Award Agreement.

(2) In the event of the termination of employment or service with the Company and all Affiliates thereof of a Participant who has been granted one or more Related Rights, such rights shall be exercisable at such time or times and subject to such terms and conditions as set forth in the related Options.

(f) *Term.*

(1) The term of each Free Standing Right shall be fixed by the Administrator, but no Free Standing Right shall be exercisable more than ten (10) years after the date such right is granted.

(2) The term of each Related Right shall be the term of the Option to which it relates, but no Related Right shall be exercisable more than ten (10) years after the date such right is granted.

Section 9. Restricted Shares.

(a) *General.* Restricted Shares may be issued either alone or in addition to other Awards granted under the Plan. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, Restricted Shares shall be made; the number of Shares to be awarded; the price, if any, to be paid by the Participant for the acquisition of Restricted Shares; the Restricted Period (as defined in paragraph (c) of this Section 9), if any, applicable to Restricted Shares; the Performance Goals (if any) applicable to Restricted Shares; and all other conditions of the Restricted Shares. If the restrictions, Performance Goals and/or conditions established by the Administrator are not attained, a Participant shall forfeit his or her Restricted Shares in accordance with the terms of the grant. The provisions of the Restricted Shares need not be the same with respect to each Participant.

(b) *Awards and Certificates.* The prospective recipient of Restricted Shares shall not have any rights with respect to any such Award, unless and until such recipient has executed an Award Agreement and delivered a fully executed copy thereof to the Company, within a period of sixty (60) days (or such other period as the Administrator may specify) after the award date. Except as otherwise provided below in Section 9(c), (*i*) each Participant who is granted an award of Restricted Shares may, in the Company's sole discretion, be issued a stock certificate in respect of such Restricted Shares; and (*ii*) any such certificate so issued shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to any such Award.

The Company may require that the stock certificates, if any, evidencing Restricted Shares granted hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any award of Restricted Shares, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such Award.

Notwithstanding anything in the Plan to the contrary, any Restricted Shares (whether before or after any vesting conditions have been satisfied) may, in the Company's sole discretion, be issued in uncertificated form pursuant to the customary arrangements for issuing shares in such form.

(c) *Restrictions and Conditions.* The Restricted Shares granted pursuant to this Section 9 shall be subject to the following restrictions and conditions and any additional restrictions or conditions as determined by the Administrator at the time of grant or, subject to Code Section 409A, thereafter:

(1) The Administrator may, in its sole discretion, provide for the lapse of restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain Performance Goals, the Participant's termination of employment or service as a director, independent contractor or consultant to the Company or any Affiliate thereof, or the Participant's death or Disability; *provided*, *however*, that this sentence shall not apply to any Award which is intended to qualify as "performance-based compensation" under Code Section 162(m). Notwithstanding the foregoing, upon a Change in Control, the outstanding Awards shall be subject to Section 11 hereof.

(2) Except as provided in Section 15 or in the Award Agreement, the Participant shall generally have the rights of a shareholder of the Company with respect to Restricted Shares during the Restricted Period. Certificates for Shares of unrestricted Common Stock may, in the Company's sole discretion, be delivered to the Participant only after the Restricted Period has expired without forfeiture in respect of such Restricted Shares, except as the Administrator, in its sole discretion, shall otherwise determine.

(3) The rights of Participants granted Restricted Shares upon termination of employment or service as a director, independent contractor, or consultant to the Company or to any Affiliate thereof terminates for any reason during the Restricted Period shall be set forth in the Award Agreement.

Section 10. Other Share-Based or Cash-Based Awards.

(a) The Administrator is authorized to grant Awards to Participants in the form of Other Share-Based Awards or Other Cash-Based Awards, as deemed by the Administrator to be consistent with the purposes of the Plan and as evidenced by an Award Agreement. The Administrator shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including any Performance Goals and performance periods. Common Stock or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under this Section 10 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Shares, other Awards, notes or other property, as the Administrator shall determine, subject to any required corporate action.

(b) With respect to Awards that are intended to be "qualified performance-based compensation" under Code Section 162(m), no payment shall be made to a Participant that is or is likely to become a Covered Employee prior to the certification by the Committee that the Performance Goals have been attained. The Committee may establish other rules applicable to the Other Share- Based Awards and the Other Cash-Based Awards, *provided*, *however*, that such rules shall be in compliance with Code Section 162(m) to the extent applicable to any Covered Employee.

Section 11. Accelerated Vesting In Connection With a Change in Control.

(a) Unless otherwise determined by the Administrator or as evidenced in an Award Agreement and except as provided in Section 11(b) below, in the event that a Change in Control occurs, then:

(1) any unvested or unexercisable portion of any Award carrying a right to exercise shall become fully vested and exercisable; and

(2) the restrictions, deferral limitations, payment conditions and forfeiture conditions applicable to an Award granted under the Plan shall lapse and such Awards shall be deemed fully vested and any performance conditions imposed with respect to such Awards shall be deemed to be fully achieved.

Upon a Change in Control, the Committee may provide for the cancellation of all Awards then outstanding. Upon such cancellation, the Company shall make, in exchange for each such Award, a payment either in (*i*) cash, (*ii*) shares of the successor entity, or (*iii*) a combination of cash or shares, at the discretion of the Committee, and in each case as the Committee shall, in its sole discretion determine, in an amount per share subject to such Award equal to the excess, if any, of the Fair Market Value of a share of Common Stock as of the date of the Change in Control over the per share exercise price, if any, of such Award.

(b) Notwithstanding anything to the contrary contained herein, unless otherwise determined by the Administrator or as evidenced in an Award Agreement or other agreement between the Company and a Participant, with respect to each Other Cash-Based Award granted to a Participant pursuant to the Company's annual incentive plan or program, in the event that a Change in Control occurs during an annual performance period, each Participant shall be entitled to receive on the date of the Change in Control a payment with respect to such annual incentive award calculated based on the actual performance of the applicable performance goals through the date of the Change in Control, as determined by the Administrator in its discretion, pro-rated based on the number of days of the annual performance period that have elapsed prior to and including the date of the Change in Control.

Section 12. Amendment and Termination.

The Board may amend, alter or terminate the Plan, but no amendment, alteration, or termination shall be made that would impair the rights of a Participant under any Award theretofore granted without such Participant's consent. The Board shall obtain approval of the Company's shareholders for any amendment that would require such approval in order to satisfy the requirements of Code Section 162(m), any rules of the stock exchange on which the Common Stock is traded or other applicable law. The Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Section 5 of the Plan and the immediately preceding sentence, no such amendment shall impair the rights of any Participant without his or her consent.

Section 13. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

Section 14. Withholding Taxes.

Each Participant shall, no later than the date as of which the value of an Award first becomes includible in the gross income of such Participant for federal and/or state income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any federal, state, or local taxes of any kind required by law to be withheld with respect to the Award. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Participant. Whenever cash is to be paid pursuant to an Award granted hereunder, the Company shall have the right to deduct therefrom an amount sufficient to satisfy any federal, state and local withholding tax requirements related thereto. Whenever Shares are to be delivered pursuant to an Award, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any related federal, state and local taxes to be withheld and applied to the tax obligations. With the approval of the Administrator, a Participant may satisfy the foregoing requirement by electing to have the Company withhold from delivery of Shares or by delivering already owned unrestricted shares of Common Stock, in each case, having a value not exceeding the federal, state and local taxes to be withheld and applied to the tax obligations. Such Shares shall be valued at their Fair Market Value on the date of which the amount of tax to be withheld is determined. Fractional share amounts shall be settled in cash. Such an election may be made with respect to all or any portion of the Shares to be delivered pursuant to an Award. The Company may also use any other method of obtaining the necessary payment or proceeds, as permitted by law, to satisfy its withholding obligation with respect to any Option or other Award.

Section 15. Transfer of Awards.

Until such time as the Awards are fully vested and/or exercisable in accordance with the Plan or an Award Agreement, no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any Award or any agreement or commitment to do any of the foregoing (each, a "*Transfer*") by any holder thereof in violation of the provisions of the Plan or an Award Agreement will be valid, except with the prior written consent of the Administrator, which consent may be granted or withheld in the sole discretion of the Administrator. Any purported Transfer of an Award or any economic benefit or interest therein in violation of the Plan or an Award Agreement shall be null and void *ab initio*, and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Award or any economic benefit or interest therein transferred in violation of the Plan or an Award Agreement shall not be entitled to be recognized as a holder of such Shares. Unless otherwise determined by the Administrator in accordance with the provisions of the immediately preceding sentence, an Option may be exercised, during the lifetime of the Participant, only by the Participant or, during any period during which the Participant is under a legal disability, by the Participant's guardian or legal representative.

Section 16. Continued Employment.

The adoption of the Plan shall not confer upon any Eligible Recipient any right to continued employment or service with the Company or any Affiliate thereof, as the case may be, nor shall it interfere in any way with the right of the Company or any Affiliate thereof to terminate the employment or service of any of its Eligible Recipients at any time.

Section 17. Effective Date.

The Plan was adopted by the Board and became effective on December 10, 2009 (the "*Effective Date*").

Section 18. Term of Plan.

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but Awards theretofore granted may remain outstanding beyond that date.

Section 19. Code Section 409A.

The intent of the parties is that payments and benefits under the Plan comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and be administered to be in compliance therewith. Any payments described in the Plan that are due within the "short-term deferral period" as defined in Code Section 409A shall not be treated as deferred compensation unless applicable law requires otherwise. Notwithstanding anything to the contrary in the Plan, to the extent required in order to avoid accelerated taxation and/or tax penalties under Code Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6) month period immediately following the Participant's termination of employment shall instead be paid on the first business day after the date that is six (6) months following the Participant's separation from service (or upon the Participant's death, if earlier). In addition, for purposes of the Plan, each amount to be paid or benefit to be provided to the Participant pursuant to the Plan, which constitute deferred compensation subject to Code Section 409A, shall be construed as a separate identified payment for purposes of Code Section 409A.

Section 20. Code Section 162(m).

The Committee may not delegate its authority to establish Performance Goals, certify performance against the Performance Goals or take other actions with respect to awards that are intended to be "qualified performance-based compensation" under Code Section 162(m). Performance Goals shall be established in writing before the earlier of (i) the 90th day of the performance period or (ii) the date that 25% of the performance period has elapsed. The payment of Awards under the Plan that are subject to the achievement of Performance Goals (including any prorated Awards) shall occur no later than March 15 of the calendar year following the year in which the performance period ends. With respect to Awards intended to be "qualified performance-based compensation" under Code Section 162(m), the Committee shall not have the discretion to pay in excess of the amount earned based on the attainment of the Performance Goals as certified by the Committee.

Section 21. Governing Law.

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law of such state.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

OR

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

Commission File Number: 001-34568

KAR Auction Services, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	**20-8744739**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was $493,543,775 at June 30, 2012.

As of February 12, 2013, 136,743,228 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

Documents Incorporated by Reference

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference herein from the registrant's Definitive Proxy Statement for its 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the registrant's fiscal year ended December 31, 2012.

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DEFINED TERMS

Unless otherwise indicated, the following terms used in this Annual Report on Form 10-K 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 its subsidiaries unless the context otherwise requires;
- "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, which was wholly owned by KAR LLC prior to the initial public offering. KAR Auction Services is the accounting acquirer, and the assets and liabilities of both ADESA and IAA were recorded at fair value as of April 20, 2007;
- "ADESA" refers, collectively, to ADESA, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries, including OPENLANE, Inc. ("OPENLANE", a wholly owned subsidiary of ADESA and its subsidiaries);
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly owned subsidiary of ADESA and its subsidiaries;
- "ALLETE" refers to ALLETE, Inc. the former parent company of ADESA;
- "AutoVIN" refers to AutoVIN, Inc., our wholly owned subsidiary;
- "Axle LLC" refers to Axle Holdings, II, LLC, which is owned by affiliates of certain of the Equity Sponsors (Kelso & Company and Parthenon), certain members or former members of IAA management and certain co-investors in connection with the acquisition of IAA in 2005. Axle LLC is the former ultimate parent company of IAA and is a holder of common equity interests in KAR LLC;
- "Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent, as amended on November 29, 2012;
- "2007 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 on June 10, 2009, October 23, 2009 and November 11, 2010. The 2007 Credit Agreement was terminated concurrently with our entry into the Credit Agreement described above;
- "Credit Facility" refers, collectively, to the $1.7 billion, six-year senior secured term loan facility and the $250 million, five-year senior secured revolving credit facility, the terms of which are set forth in the Credit Agreement;
- "Equity Sponsors" refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P., which collectively own through their respective affiliates a majority of the equity of KAR Auction Services;

- “fixed senior notes” refers to KAR Auction Services’ 8¾% Senior Notes due May 1, 2014. In June 2011, we prepaid the $450.0 million aggregate principal amount outstanding on the fixed senior notes;
- “floating senior notes” refers to KAR Auction Services’ Floating Rate Senior Notes due May 1, 2014 ($150.0 million aggregate principal amount outstanding at December 31, 2012);
- “IAA” refers, collectively, to Insurance Auto Auctions, Inc., a wholly owned subsidiary of KAR Auction Services, and its 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 owns a majority of our common stock;
- “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. In June 2011, we prepaid the $131.1 million aggregate principal amount outstanding on the senior subordinated notes.

PART I

Item 1. Business

Overview

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 230 physical auction locations at December 31, 2012, and multiple proprietary internet venues. In 2012, we facilitated the sale of over 3.3 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, marshalling, 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.

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 primarily 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 December 31, 2012, we had a network of 67 whole car auction locations and 163 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 Corporate History

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in April 2007 upon the consummation of the 2007 Transactions. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. 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 the Company in April 2007. IAA entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAA was acquired by affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAA management contributed IAA to KAR Auction Services in connection with the 2007 Transactions. On December 16, 2009, we sold 25,000,000 shares of common stock in an initial public offering. In addition, on December 23, 2009, the underwriters' of the initial

public offering exercised a portion of their option to purchase additional shares, resulting in an additional 2,656,050 shares of common stock being sold. In 2011, ADESA acquired OPENLANE.

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 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 Auction 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 (excluding approximately 0.3 million units sold by OPENLANE in 2011). Data for the whole car auction industry is collected by the National Auto Auction Association ("NAAA") through an annual survey. NAAA industry volumes for 2012 have not yet been released; however, we estimate that used vehicle auction volumes in North America in 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, weather, 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 24% 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.

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. 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 11% and 13% for the twelve months ended December 31, 2012 and 2011, respectively, compared with the same periods in prior years.

Continue to Grow Revenue per Vehicle

From 2008 through December 31, 2012, our whole car (excluding OPENLANE) and salvage revenue per vehicle grew at compound annual growth rates of 1.7% and 3.3%, 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 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 such 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 instantly review 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 $290.2 million and $305.8 million of cash flow from operations for the twelve months ended December 31, 2012 and 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, which was 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 to support growth initiatives.

On February 20, 2013, we announced that our board of directors declared a cash dividend of $0.19 per share payable on April 4, 2013, to stockholders of record at the close of business on March 25, 2013.

Selective Acquisitions and Greenfield Expansion

Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire 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. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

Increase Our International Presence

In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with total 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 and 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.

Our Business Segments

We operate as three reportable business segments: ADESA Auctions, IAA and AFC. Our revenues for the year ended December 31, 2012 were distributed as follows: ADESA 54%, IAA 36% and AFC 10%. Geographic information as well as comparative segment revenues and related financial information pertaining to ADESA, IAA and AFC for the years ended December 31, 2012, 2011 and 2010 are presented in the tables in Note 19, *Segment Information,* to the Consolidated Financial Statements for KAR Auction Services, Inc., which are included under Item 8 in this Annual Report on Form 10-K.

ADESA

Overview

We are the second largest provider of whole car auctions and related services to the vehicle remarketing industry in North America. We serve our international customer base through online auctions and auction facilities that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. Our online service offerings include OPENLANE, a leader in internet-based remarketing solutions, and allow us to offer vehicles for sale from any location.

Vehicles available at our auctions include vehicles from institutional customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from used vehicle dealers turning their inventory. The number of vehicles offered for sale at auction is the key driver of our costs incurred in the whole car auction process, and the number of vehicles sold is the key driver of the related fees generated by the remarketing process.

We offer both online and physical auctions as well as value-enhancing ancillary services in an effective and efficient manner to maximize returns for the sellers of used vehicles. We quickly transfer the vehicles and ownership to the buyer and the net funds to the seller. Vehicles are typically offered for sale at the physical auctions on at least a weekly basis at most locations and the auctions are broadcast over the internet with streaming audio and video so that remote bidders can participate via our online capabilities. Our online auctions function 24 hours a day, 7 days a week, providing our customers with maximum exposure for their vehicles and the flexibility to offer vehicles in auctions that last for a few hours, days or even weeks. As a result of our auctions, we provide real-time wholesale market prices for the used vehicle remarketing industry as large populations of dealers seek to fill their inventory for resale to their retail customers.

We generate revenue primarily from auction fees paid by vehicle buyers and sellers. Generally, we do not take title to or bear the risk of loss for vehicles sold at whole car auctions. Our buyer fees and dealer seller fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while institutional seller fees are typically fixed. We add buyer fees to the gross sales price paid by buyers for each vehicle, and generally 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. We generally deduct seller fees and other ancillary service fees to sellers from the gross sales price of each vehicle before remitting the net amount to the seller.

Customers

Suppliers of vehicles to our whole car auctions primarily include (i) large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies (collectively "institutional customers"); and (ii) franchised and independent used vehicle dealers (collectively "dealer customers"). For the year ended December 31, 2012, no single supplier accounted for more than 5% of ADESA's revenues.

Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers. For the year ended December 31, 2012, no single buyer accounted for more than 2% of ADESA's revenues.

Services

Our whole car auctions also provide a full range of innovative and value-added services to sellers and buyers that enable us to serve as a "one-stop shop." Many of these services may be provided or purchased independently from the auction process, including:

Services	Description
Auction Related Services	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, post-sale inspections, security for consigned inventory, title processing, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
Transportation Services	We provide both inbound (pickup) and outbound (delivery) transportation services utilizing our own equipment and personnel as well as licensed and insured third party carriers. Through the CarsArrive internet-based system, customers can instantly review price quotes and delivery times, and vehicle transporters can check available loads and also receive instant notification of available shipments. CarsArrive provides automated vehicle shipping services.
Reconditioning Services	Our ADESA auctions provide detailing, body work, paintless dent repair ("PDR"), light mechanical work, glass repair, tire and key replacement and upholstery repair.
Inspection Services Provided By AutoVIN	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures facilitates dealers sourcing vehicles via the internet.
Title and Repossession Administration and Remarketing Services Provided By PAR	PAR provides end-to-end management of the remarketing process including titling, repossession administration, inventory management, auction selection, pricing and representation of the vehicles at auction for those customers seeking to outsource all or just a portion of their remarketing needs.
ADESA Analytical Services	ADESA Analytical Services provides value-added market analysis to our customers and the media. These services include access to publications and custom analysis of wholesale market trends for ADESA's customers, including peer group and market benchmarking studies, analysis of the benefits of reconditioning, site selection for optimized remarketing of vehicles, portfolio analysis of auction sales and computer-generated mapping and buyer analysis.

Sales and Marketing

Our sales and marketing approach at ADESA is to develop strong relationships and interactive dialogue with our customers. We have relationship managers for the various categories of institutional customers, including vehicle manufacturers, rental car companies, finance companies and others. These relationship managers focus on current trends and customer needs for their respective seller group in order to better coordinate our sales effort and service offerings.

Managers of individual auction locations are ultimately responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to maximizing value for our vehicle suppliers. Through our ADESA Analytical Services department, we also provide market analysis to our customers, as they use analytical techniques in making their remarketing decisions.

We have local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of local markets. These local representatives are complemented by local telesales representatives and are managed by a corporate-level team focused on developing and implementing standard best practices. We believe this combination of a centralized structure with decentralized resources enhances relationships with the dealer community and may further increase dealer consignment business at our auctions.

Online Solutions

Our current ADESA online solutions include:

Proprietary ADESA Technology	Description
OPENLANE / DealerBlock®	These platforms provide for either real-time or "bulletin-board" online auctions of consigned inventory not scheduled for physical auction. These platforms are also utilized for upstream and midstream selling, which facilitate the sale of vehicles prior to their arrival at a physical auction site. Auctions can be either closed (restricted to certain eligible dealers) or open (available to all eligible dealers) and inventory feeds of vehicles are automated with many customers' systems as well as third party providers that are integrated with various dealer management systems.
ADESA LiveBlock™	Our live auction internet bidding solution, ADESA LiveBlock™, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other internet bidders via a simple, web-based interface. ADESA LiveBlock™ provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.
ADESA Run List®	Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.
ADESA Market Guide®	Provides wholesale auction prices, auction sales results, market data and vehicle condition information.
ADESA Virtual Inventory	Subscription-based service to allow dealers to embed ADESA's search technology into a dealer's Web site to increase the number of vehicles advertised by the dealer.
ADESA Notify Me	E-mail notification service for dealers looking for particular vehicles being run at physical or online auctions.

Competition

In the North American whole car auction industry, we compete with Manheim, a subsidiary of Cox Enterprises, Inc., OVE.com (Manheim's "Online Vehicle Exchange"), SmartAuction, as well as several smaller chains of auctions and independent auctions, some of which are affiliated through their membership in industry associations. In the United States, competition is strongest with Manheim for the supply of used vehicles from national institutional customers. In Canada, we are the largest provider of whole car vehicle auction services. The supply of vehicles from dealers is dispersed among all of the auctions in the used vehicle market.

Due to the increased viability of the internet as a marketing and distribution channel, new competition has arisen from internet-based companies and our own customers who have historically remarketed vehicles through various channels, including auctions. Direct sales of vehicles by institutional customers and large dealer groups through internally developed or third-party online platforms have largely replaced telephonic and other non-auction methods, becoming a significant

portion of overall used vehicle remarketing. The extent of use of direct, online systems varies by customer. In addition, we and some of our competitors offer online auctions in connection with physical auctions, and other online companies now include used vehicles among the products offered at their auctions.

IAA

Overview

We are one of the two leading providers of salvage vehicle auctions and related services in North America. We operate as Insurance Auto Auctions in the United States and Impact Auto Auctions in Canada and serve our customer base through salvage auction locations throughout North America. We facilitate the remarketing of damaged vehicles that are designated as total-losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. Our auctions provide buyers with the salvage vehicles they need to fulfill their scrap demand, replacement part inventory or vehicle rebuild requirements. We earn fees for our services from both suppliers and buyers of salvage vehicles.

We process salvage vehicles primarily on a consignment basis. In return for agreed upon fees, we sell vehicles on behalf of our suppliers, which continue to own the vehicles until they are sold to buyers at auction. In addition to auction fees, we generally charge fees to vehicle suppliers for various services, including towing, title processing and other administrative services. Under all methods of sale, we also charge the buyer of each vehicle fees based on a tiered structure that increases with the sale price of the vehicle as well as fixed fees for other services.

Auctions are typically held weekly at most locations. Vehicles are marketed at each respective auction site as well as via an online auction list that allows prospective bidders to preview and bid on vehicles prior to the actual auction event. IAA's Auction Center feature provides internet buyers with an open, competitive bidding environment that reflects the dynamics of the live salvage auction. In late 2011, we also introduced mobile device applications that provide even greater flexibility for our buyers to interact in our auctions. The Auction Center includes such services as comprehensive auction lists featuring links to digital images of vehicles available for sale, an "Auto Locator" function that promotes the search for specific vehicles within the auction system and special "Flood" or other catastrophe auction notifications. Higher prices at auction are generally driven by broader market exposure and increased competitive bidding.

We have developed online tools to assist customers in remarketing their vehicles and establishing salvage vehicle values, in addition to offering an alternative to physically attending an auction. Through our auction model, vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE^{SM}. We believe our auction models' capabilities maximize auction proceeds and returns to our customers. First, our physical auctions allow buyers to inspect and compare the vehicles, thus enabling them to make fully-informed bidding decisions. These physical auction abilities are an important part of the bidding process. Second, our internet auction capabilities allow buyers to participate in a greater number of auctions than if physical attendance was required. Online inventory browsing and e-mail-based inventory alerts reduce the time required to acquire vehicles.

Services

We also offer a comprehensive suite of auction, logistics and claims services, which aim to maximize salvage returns, lower administrative costs, shorten the claims process and increase the predictability of returns to vehicle suppliers, while simultaneously expanding our ability to handle an

increasing proportion of the total salvage and claims-processing function as a "one-stop shop" for insurers. Some of the services provided by IAA include:

Services	Description
Live and Live Online Auction Model	Through our auction model vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE[SM]. We believe this exposes the vehicles to the maximum number of potential buyers.
IAA Title Management	After a totaled vehicle is received at one of our facilities, it remains in storage but cannot be auctioned until transferable title has been submitted to and processed by us. We process title documents in order to comply with the Department of Motor Vehicles ("DMV") requirements for all vehicles. Wherever possible, we interface electronically with the DMV. In addition, we customarily offer the insurance companies' staff training for each state's DMV document processing procedures. IAA Title Management services range from reports on aging inventory to complete oversight of the entire title process from claim settlement for the insurance company. Our titling expertise results in reduced cycle time from assignment to proceeds and decreased administrative expenses for the supplier.
Vehicle Inspection Centers	We maintain vehicle inspection centers, or "VICs," at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these VIC sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. VICs minimize vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and also improve service time for the policyholder.
Transportation and Towing	Inbound logistics administration with actual services typically provided by third party carriers.
Remarketing Division	Focuses on vehicles, rental sellers, fleet and leasing companies, banks and dealer trade-in inventory.
Donation Division	Processes vehicle donations to charities across the United States to help turn vehicles into money for a variety of charitable organizations.

Customers

We obtain IAA's supply of vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies, as well as the general public. We have long-term relationships with substantially all of the major automobile insurance companies. For the year ended December 31, 2012, no single supplier accounted for more than 4% of IAA's revenues.

Buyers of salvage vehicles include automotive body shops, rebuilders, used car dealers, automotive wholesalers, exporters, dismantlers, recyclers, brokers, and where allowed, non-licensed (public) buyers.

For the year ended December 31, 2012, no single buyer accounted for more than 4% of IAA's revenues.

Sales and Marketing

We solicit prospective vehicle providers at the national, regional and local levels through our IAA sales force. Branch managers execute customer service requests and address customer needs at the local level. We also participate in a number of local, regional and national trade show events that further promote the benefits of our products and services.

In addition to providing insurance companies and certain non-insurance company suppliers with a means of disposing of salvage vehicles, we offer a comprehensive suite of services which aim to maximize salvage returns and shorten the claims processing time. We seek to become integrated within our suppliers' salvage processes, and we view such mutually beneficial relationships as an essential component of our effort to attract and retain suppliers.

By analyzing historical industry and customer data, we provide suppliers with a detailed analysis of their current salvage returns and a proposal detailing methods to improve salvage returns, reduce administrative costs and provide proprietary turn-key claims processing services.

We also seek to expand our supplier relationships through recommendations from individual insurance company branch offices to other offices of the same insurance company. We believe that our existing relationships and the recommendations of branch offices play a significant role in our marketing of services within national insurance companies. As we have expanded our geographic coverage, we have been able to market our services to insurance company suppliers on a national basis or within an expanded geographic area.

Online Solutions

Our current IAA online solutions include:

Proprietary IAA Technology	Description
i-Bid LIVESM	Our live auction internet bidding solution, i-Bid LIVE, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other internet bidders via a simple, web-based interface. i-Bid LIVE provides real-time streaming audio from the live auction and images of salvage vehicles and other data. Buyers inspect and evaluate the salvage vehicle and listen to the auction while it is underway.
I-Buy FastSM	I-Buy Fast is an immediate buying option that allows qualified buyers to purchase vehicles between auctions for a fixed price. I-Buy Fast vehicles include those that ran in a previous auction but were not sold.
CSAToday®	The process of salvage disposition through our system begins at the first report of loss or when a stolen vehicle has been subsequently recovered. An insurance company representative consigns the vehicle to us, either by phone, facsimile or electronically through our online proprietary data management system, CSAToday.

Proprietary IAA Technology	Description
	CSAToday enables insurance company suppliers to enter vehicle data electronically and then track and manage the progress of salvage vehicles in terms of both time and salvage recovery dollars. With this tool, vehicle providers have 24-hour access to their total-loss data. The information provided through this system ranges from the details associated with a specific total-loss vehicle, to comprehensive management reports for an entire claims center or geographic region. Additional features of this system include inventory management tools and a powerful new "Average Salvage Calculator" that helps customers determine the approximate salvage value of a potential total-loss vehicle. This tool is helpful to adjusters when evaluating the "repair vs. total" decision. The management tools provided by CSAToday enable claims personnel to monitor and manage total-loss salvage more effectively. Insurance company suppliers can also use CSAToday to view original garage receipts, verify ignition key availability, view settlement documents and images of the vehicles and receive updates of other current meaningful data.
Automated Salvage Auction Processing (ASAP)	We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. ASAP provides salvage vehicle suppliers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, salvage returns analysis and electronic data interchange of titling information. Our other information systems, including our i-Bid LIVE and CSAToday systems, are integrated with our ASAP product, facilitating seamless auction processes and information flow with internal operational systems. Our technology platform is a significant competitive advantage that allows us to efficiently manage our business, improve customer returns, shorten customers' claims processing cycle and lower our customers' administration costs.

Competition

In the salvage sector, we compete with Copart, Total Resource Auctions (a Manheim company), independent auctions, some of which are affiliated through their membership in industry organizations to provide broader coverage through network relationships, and a limited number of used vehicle auctions that regularly remarket salvage vehicles. Additionally, some dismantlers of salvage vehicles such as Greenleaf and LKQ Corporation and internet-based companies have entered the market, thus providing alternate avenues for sellers to remarket salvage vehicles. While most insurance companies have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as us, they may in the future decide to dispose of their salvage vehicles directly to end users.

In Canada, we are the largest provider of salvage vehicle auction services. Our competitors include Copart, independent vehicle auctions, brokers, online auction companies, and vehicle recyclers and dismantlers.

AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2012, AFC serviced over 1.2 million loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a bank conduit facility on a revolving basis. We also securitize the majority of our Canadian dollar denominated finance receivables through a separate third-party bank conduit facility. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

Customers and Locations

Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from our auctions, other auctions and non-auction purchases. In 2012, over 83% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. As of December 31, 2012, we serviced auctions through 104 locations which are conveniently located at or within close proximity of auctions held by ADESA and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days, as well as maintaining a presence at the ADESA auctions. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

As of December 31, 2012, AFC had over 8,800 active dealers with an average line of credit of approximately $180,000 and no one dealer representing greater than 1.5% of our portfolio. An average of approximately 14 vehicles per active dealer was floorplanned with an approximate average value outstanding of $8,000 per vehicle as of December 31, 2012.

Sales and Marketing

AFC approaches and seeks to expand its share of the independent dealer floorplan market through a number of methods and channels. We target and solicit new dealers through both direct sales efforts at the dealer's place of business as well as auction-based sales and customer service representatives, who service our dealers at auctions where they replenish and rotate vehicle inventory. These largely local efforts are handled by AFC branch managers and AFC branch personnel. AFC's corporate-level team and Business Development Center provide sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating promotional activity with auctions and other vehicle supply sources.

Credit

Our procedures and proprietary computer-based system enable us to manage our credit risk by tracking each vehicle from origination to payoff, while expediting services through our branch network. Typically, we assess a floorplan fee at the inception of a loan and we collect all accrued fees and interest when the loan is extended or repaid in full. In addition, AFC generally holds the title or other

evidence of ownership to all vehicles which are floorplanned. Typical loan terms are 30 to 60 days, each with a possible loan extension. For an additional fee, this loan extension allows the dealer to extend the duration of the loan beyond the original term for another 30 to 60 days if the dealer makes payment towards principal and pays accrued fees and interest.

The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to $300,000 are extended using a proprietary scoring model developed internally by AFC. Credit lines in excess of $300,000 may be extended using underwriting guidelines which require dealership and personal financial statements and tax returns. The underwriting of each line of credit requires an analysis, write-up and recommendation by the credit department and, in case of credit lines in excess of $300,000, final review by a credit committee.

Collateral Management

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, insufficient funds received or poor audit results. Branch personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, over 60,000 routine audits, or lot checks, are performed annually on the dealers' lots through our AutoVIN subsidiary. Poor results from lot checks typically require branch personnel to take actions to determine the status of missing collateral, including visiting the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

AFC operates two divisions which are organized into twelve regions in North America. Each division and region is monitored by managers who oversee daily operations. At the corporate level, AFC employs full-time collection specialists and collection attorneys who are assigned to specific regions and monitor collection activity for these areas. Collection specialists work closely with the branches to track trends before an account becomes a troubled account and to determine, together with collection attorneys, the best strategy to secure the collateral once a troubled account is identified.

Securitization

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of undivided interests in certain eligible finance receivables subject to committed liquidity. AFC's securitization facility has been in place since 1996. AFC Funding Corporation had committed liquidity of $650 million from a third party conduit for U.S. finance receivables at December 31, 2012. The agreement expires on June 30, 2014.

Also, we have an agreement in place for the securitization of Automotive Finance Canada, Inc.'s ("AFCI") receivables. This securitization facility provides up to C$100 million in financing for eligible finance receivables through another third party conduit (separate from the U.S. conduit). The agreement expires on June 30, 2014. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

Competition

AFC primarily provides short-term dealer floorplan financing of wholesale vehicles to independent vehicle dealers in North America. At the national level, AFC's competition includes NextGear Capital, formerly operating as Manheim Automotive Financial Services and Dealer Services Corporation which were combined in 2012, other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks, credit unions and independent auctions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions.

Some of our industry competitors who operate whole car auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. AFC competes primarily on the basis of quality of service, convenience of payment, scope of services offered and historical and consistent commitment to the sector. Our long-term relationships with customers have been established over time and act as a competitive strength for us.

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.

Vehicle and Lending Regulation

Our operations are subject to regulation, supervision and licensing under various U.S., Canadian and Mexican 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. Some examples of the regulations and laws that impact our company are included in Item 1A "Risk Factors" under the risk: "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."

Environmental Regulation

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. 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 IAA's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability, if any, at this site cannot be estimated at this time. See Item 3, "Legal Proceedings" for a further discussion of this matter.

Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period.

Employees

At December 31, 2012, we had a total of 12,069 employees, of which 9,323 were located in the U.S. and 2,746 were located in Canada and Mexico. Approximately 70% of our workforce consists of full-time employees. Currently, none of our employees participate in collective bargaining agreements.

In addition to the employee workforce, we also utilize temporary labor services to assist in handling the vehicles consigned to us and to provide certain other services. Nearly all of our auctioneers are independent contractors. Some of the services we provide are outsourced to third party providers that perform the services either on-site or off-site. The use of third party providers depends upon the resources available at each auction facility as well as peaks in the volume of vehicles offered at auction.

Available Information

Our Web address is www.karauctionservices.com. Our electronic filings with the Securities and Exchange Commission ("SEC") (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the Web site as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, our Corporate Governance Guidelines, Code of Conduct and Ethics, Code of Ethics for Principal Executive and Senior Financial Officers and charters of the audit committee, the nominating and corporate governance committee and the compensation committee of our board of directors are available on our Web site and available in print to any shareholder who requests it. The information posted on our Web site is not incorporated into this Annual Report.

Any materials that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet Web site that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. Risk Factors

Investing in our Company 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 Annual Report on Form 10-K, before deciding to invest in our Company. 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. 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.

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 approximately 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 continue to 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 and an estimated 7.7 million units in 2012 (excluding approximately 0.3 million units sold by OPENLANE in 2011 and 2012). 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 and Canada. Capacity reductions could depress the number of vehicles received at auction in the future and could 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.

- *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 declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, 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 the 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. Potential 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.* 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 economic weakness 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.

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 and 2012, 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 and 2012 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 (Manheim, Copart and NextGear Capital), (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 (affiliated with Manheim), SmartAuction, eBay Motors and others. With the exception of OVE.com, 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 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 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 2010 and 2011 there was 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 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 readily 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.

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

Acquisitions have been a 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 $290.2 million and $305.8 million of cash flow from operations for the years ended December 31, 2012 and 2011, 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 United States 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 December 31, 2012. Any increase 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 and such revenues may not be sufficient to offset the costs incurred.

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer vehicles 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.

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 sports cars, luxury vehicles, 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, 2012, approximately 16% 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.

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. 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 IAA's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability at this site cannot be estimated at this time. See Item 3, "Legal Proceedings" for a further discussion of this matter.

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 December 31, 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 $23.6 million at December 31, 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 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 the majority of our indebtedness is 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, suspend or eliminate dividends, 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 Credit Facility and the indenture governing our floating senior 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.

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

The indenture governing our floating senior notes and the agreement governing our Credit Facility contain, and future debt instruments may contain, various provisions that limit our ability and the ability of our subsidiaries, including ADESA and IAA, 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 certain 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.

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 revenue for most vehicles does 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 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 self-insured 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 have nor do we currently expect to obtain key person insurance on any of our executive officers.

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., Canadian and Mexican 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.

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 employment-related issues, 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.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, copyright, patent, trade secret, and domain name protection laws, to protect our proprietary rights. In the United States and internationally, we have filed various applications for protection of certain aspects of our intellectual property, and we currently hold issued patents in the United States. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could have an adverse effect on our business and financial results.

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.

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, or 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.

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 represents 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.

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 and auditing 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.

Risks Related to Ownership of Our 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.

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;
- results of operations that are below our announced guidance or below securities analysts' or consensus estimates or expectations;
- 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 successfully defended, could be costly to defend and a distraction to management.

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.

At February 12, 2013, there were 136,743,228 shares of our common stock outstanding. Of our issued and outstanding shares, all of the common stock is 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." Pursuant to a registration rights agreement entered into in connection with the 2007 Transactions, KAR LLC caused us to file a registration statement under the Securities Act, covering resales of all shares of our common stock held by KAR LLC. Approximately 67% of our outstanding common stock is held indirectly through their investment in KAR LLC by affiliates of the Equity Sponsors, other equity co-investors and members of our management. 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 Item 13, "Certain Relationships and Related Transactions, and Director Independence."

Pursuant to a registration statement under the Securities Act, we have registered 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.

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) have significant influence over us, 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 by affiliates of the Equity Sponsors. Affiliates of the Equity Sponsors, other equity co-investors and management indirectly own through their investment in KAR LLC approximately 67% of our common stock. As a result, affiliates of the Equity Sponsors 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.

We have entered into a director designation agreement that provides for the rights of KAR LLC directly, and the Equity Sponsors indirectly, to nominate designees to our board of directors. See Item 13, “Certain Relationships and Related Transactions, and Director Independence.”

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.

You may not receive any future dividends on our common stock.

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are not required to declare cash dividends on our common stock. Future dividend decisions will be based on and affected by 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 are a "controlled company" within the meaning of the NYSE rules and, as a result, qualify for, and 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.

KAR LLC controls 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.

We are utilizing certain of these exemptions. As a result, our compensation committee does not consist entirely of independent directors. Accordingly, you may not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

The corporate headquarters of KAR Auction Services, ADESA and AFC are located in Carmel, Indiana. The facilities are leased properties, with office space being leased in each case through 2019. At December 31, 2012, properties utilized by the ADESA business segment include 67 used vehicle auction facilities in North America, which are either owned or leased. Each auction is generally a multi-lane, drive-through facility, and may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA auction facilities vary in size based on the market demographics and offer anywhere from 1 to 16 auction lanes, with an average of approximately 7 lanes per location.

IAA is headquartered in Westchester, Illinois, with office space being leased through 2016. At December 31, 2012, properties utilized by the IAA business segment include 163 salvage vehicle auction facilities in the United States and Canada, most of which are leased. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA. The IAA properties are used primarily for auction and storage purposes consisting on average of approximately 28 acres of land per site.

Of AFC's 104 locations in North America at December 31, 2012, 73 are physically located at auction facilities (including 53 at ADESA). Each of the remaining AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

We believe our existing properties are adequate to meet current needs and that suitable additional space will be available as needed to accommodate any expansion of operations and additional offices on commercially acceptable terms.

Item 3. Legal Proceedings

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

IAA—Lower Duwamish Waterway

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 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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

KAR Auction Services' common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KAR" and has been traded on the NYSE since December 11, 2009. As of February 12, 2013, there were 3 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

The following table sets forth the range of high and low intraday sales prices per share of common stock for each quarter during fiscal years 2012 and 2011:

	2012	
	High	Low
4th Quarter (October 1 - December 31)	$20.49	$17.00
3rd Quarter (July 1 - September 30)	$20.85	$14.10
2nd Quarter (April 1 - June 30)	$18.57	$14.39
1st Quarter (January 1 - March 31)	$16.85	$13.46

	2011	
	High	Low
4th Quarter (October 1 - December 31)	$14.53	$10.92
3rd Quarter (July 1 - September 30)	$19.64	$11.92
2nd Quarter (April 1 - June 30)	$21.00	$15.30
1st Quarter (January 1 - March 31)	$15.74	$13.75

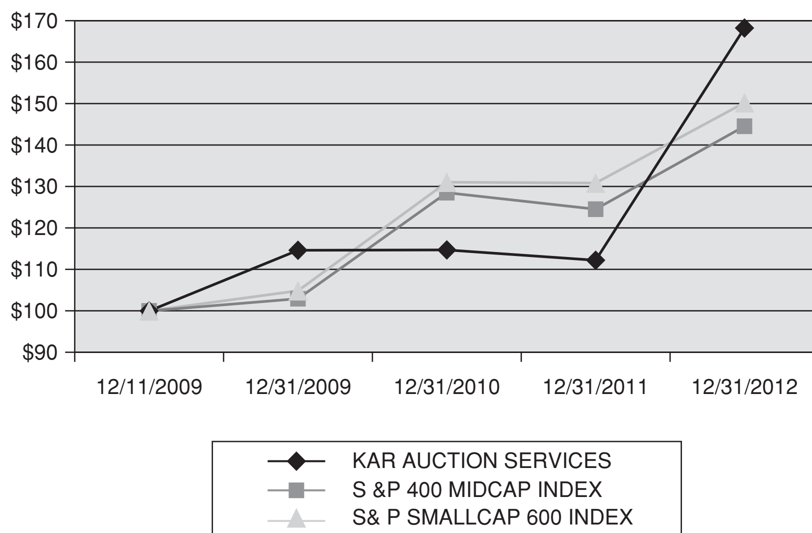
Dividend Policy

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. On February 20, 2013, the board of directors announced a cash dividend of $0.19 per share payable on April 4, 2013, to stockholders of record at the close of business on March 25, 2013, representing an annualized dividend of $0.76 per share. Future dividend decisions will be based on and affected by 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. We have no prior history of declaring or paying any cash or other dividends, and no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Stock Price Performance Graph

The graph below shows the cumulative total stockholder return, assuming the investment of $100, for the period beginning on December 11, 2009, the first trading day of KAR Auction Services' common stock, and ending on December 31, 2012, on each of KAR Auction Services' common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's Smallcap 600 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Comparison of Cumulative Total Return



Company/Index	Base Period 12/11/2009	12/31/2009	12/31/2010	12/31/2011	12/31/2012
KAR Auction Services, Inc.	$100	$114.63	$114.71	$112.22	$168.25
S&P 400 Midcap Index	$100	$102.94	$128.52	$124.54	$144.55
S&P Smallcap 600 Index	$100	$104.86	$131.05	$130.85	$150.23

Item 6. Selected 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 audited consolidated financial statements and related notes thereto of KAR Auction Services, Inc. and other financial information included elsewhere in this Annual Report on Form 10-K.

Selected Financial Data of KAR Auction Services
For the Years Ended December 31, 2012, 2011, 2010, 2009 and 2008

The following consolidated financial data for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 is based on our audited financial statements.

	Year Ended December 31,				
(Dollars in millions except per share amounts)	2012	2011	2010	2009	2008
Operations:					
Operating revenues					
ADESA	$1,053.5	$1,017.4	$1,075.9	$1,088.5	$1,123.4
IAA	716.1	700.1	610.4	553.1	550.3
AFC	193.8	168.8	136.3	93.9	102.3
Total operating revenues	$1,963.4	$1,886.3	$1,822.6	$1,735.5	$1,776.0
Operating expenses (exclusive of depreciation and amortization and impairment charges)	1,506.2	1,424.6	1,382.5	1,367.8	1,441.3
Goodwill and other intangibles impairment	—	—	—	—	164.4
Operating profit (loss)	267.0	281.9	268.8	195.3	(12.5)
Interest expense	119.4	143.1	141.4	172.6	215.2
Income (loss) from continuing operations	92.0	72.2	69.6	23.2	(216.2)
Net income (loss)	92.0	72.2	69.6	23.2	(216.2)
Net income (loss) per share					
Basic	0.67	0.53	0.52	0.21	(2.02)
Diluted	0.66	0.52	0.51	0.21	(2.02)
Weighted average shares outstanding					
Basic	136.5	136.0	134.9	108.0	106.9
Diluted	139.0	137.8	135.9	108.1	106.9
Cash dividends declared per common share	0.19	—	—	—	—

	At December 31,				
	2012	2011	2010	2009	2008
Financial Position:					
Working capital **(1)**	$ 294.5	$ 177.0	$ 287.9	$ 299.5	$ 304.3
Total assets	4,922.3	4,779.1	4,525.0	4,251.3	4,157.6
Total debt, net of unamortized debt discount	1,818.3	1,902.8	1,875.7	2,272.9	2,527.4
Total stockholders' equity	1,443.7	1,343.2	1,244.6	1,141.5	750.7

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Other Financial Data:					
Net cash provided by operating activities	$290.2	$305.8	$467.6	$250.8	$224.9
Capital expenditures	102.0	85.8	78.9	65.6	129.6
Depreciation and amortization	190.2	179.8	171.3	172.4	182.8

Item 7. 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 Financial Data" and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this report on Form 10-K that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; dividend declarations and payments; 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 Item 1A "Risk Factors" of this Annual Report on Form 10-K. 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;
- trends in the number of commercial vehicles being brought to auction, in-particular off-lease volumes;
- 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;
- 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;
- 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, including the Quarterly Reports on Form 10-Q to be filed by us in 2013.

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

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

Overview

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

- The ADESA Auctions segment serves an international customer base through online auctions and through 67 whole car auction facilities in North America, that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. OPENLANE, a leader in internet-based remarketing solutions, offers vehicles for sale from any location. Vehicles at ADESA's auctions

are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inspections, storage, transportation, reconditioning, titling and other administrative services.

- The IAA segment serves a domestic and international customer base through live and online auctions and through 163 salvage vehicle auction sites in the United States and Canada at December 31, 2012. The salvage auctions facilitate the remarketing of damaged or low value vehicles designated as total losses by insurance companies and charity donation vehicles, as well as recovered stolen (or theft) vehicles. The salvage auction business specializes in providing services such as inbound transportation, titling, salvage recovery and claims settlement administrative services.
- The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At December 31, 2012, AFC conducted business at 104 locations in the United States and Canada.

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

Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions were 8.4 million, 7.7 million and an estimated 7.7 million in 2010, 2011 and 2012, respectively (excluding approximately 0.3 million used vehicles sold by OPENLANE in 2011 and 2012). 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. The supply shortages and resulting decline in industry auction volumes reflect a reduction in units sold by institutional consignors. This reduction has been partially offset by an increase in dealer consignment units sold in 2010, 2011 and 2012.

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

- New car sales in the U.S. declined from 17.0 million in 2005 to 10.4 million in 2009. Although new vehicle sales have climbed over the last three years to approximately 14.5 million units in 2012, the recovery in new vehicles sales has been gradual and may continue to be so for the foreseeable future.
- The decline in total new vehicle sales, coupled with a tightening of consumer credit and changing policies regarding delinquent loans by the major lenders, resulted in a decline in repossessed vehicles coming to auction.
- When lease residuals are below wholesale vehicle values, more vehicles are purchased by either the consumer or the grounding dealer or by dealers in online auctions, prior to the vehicles being transported to a physical auction.

- As used vehicle prices have increased over the last few years, new vehicle dealers have shifted to selling more used vehicles, which can offset lower new vehicle sales. Dealers can also offer financing, warranties and insurance services on their used vehicle sales. Despite an increase in the number of trade-ins dealers keep for retail sale, the number of dealer consignment vehicles remarketed through whole car auctions has increased.
- There was a reduction in the number of lease originations in 2008 and 2009, as new vehicle sales fell and lease financing was scaled back. This decline negatively impacted the supply of off-lease vehicles available at auction through 2012 and this trend could continue into 2013.

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

Salvage

Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. The percentage of claims resulting in total losses is estimated at 14.4% for 2012, up from 13.3% in 2011. There is no central reporting system that tracks the number of total loss vehicles in any given year which makes estimating industry volumes very difficult.

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

Automotive Finance

AFC works with independent used vehicle dealers to improve their results by providing a comprehensive set of business and financial solutions that leverages its local branches, industry experience and scale, as well as KAR affiliations. Over the last few years, the U.S. independent used vehicle dealer base has rebounded from approximately 36,418 dealers in 2009 to about 37,892 dealers in 2012. During this time, AFC's eligible dealer base has grown from 9,745 dealers in 2009 to approximately 11,000 dealers in 2012 and loan transactions have grown from 799,421 in 2009 to 1,239,755 in 2012.

Key challenges for the independent used vehicle dealer include used vehicle sales volume demand, disruptions in pricing of used vehicle inventory and lack of access to consumer financing. These same challenges, to the extent they occur, could result in a material impact on AFC's results of operations. A significant decline in used vehicle sales would result in a decrease in consumer auto loan originations and an increased number of dealers defaulting on their loans. In addition, volatility in wholesale vehicle pricing impacts the value of recovered collateral on defaulted loans and the resulting severity of credit losses at AFC.

AFC implemented a number of strategic initiatives in recent years to enhance credit standards, improve portfolio risk management and enhance the customer experience. These initiatives along with the current industry environment have enabled AFC to increase its penetration of the independent dealer base while maintaining a high level of portfolio quality evidenced by low levels of net credit losses and a managed portfolio which was over 99 percent current at December 31, 2012.

Seasonality

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

Sources of Revenues and Expenses

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

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

Results of Operations

Overview of Results of KAR Auction Services for the Years Ended December 31, 2012 and 2011:

(Dollars in millions except per share amounts)	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues		
ADESA	**$1,053.5**	$1,017.4
IAA	**716.1**	700.1
AFC	**193.8**	168.8
Total revenues	**1,963.4**	1,886.3
Cost of services*	**1,087.1**	1,035.2
Gross profit*	**876.3**	851.1
Selling, general and administrative	**419.1**	389.4
Depreciation and amortization	**190.2**	179.8
Operating profit	**267.0**	281.9
Interest expense	**119.4**	143.1
Other income, net	**(4.0)**	(4.7)
Loss on extinguishment of debt	**—**	53.5
Income before income taxes	**151.6**	90.0
Income taxes	**59.6**	17.8
Net income	**$ 92.0**	$ 72.2
Net income per share		
Basic	**$ 0.67**	$ 0.53
Diluted	**$ 0.66**	$ 0.52

* Exclusive of depreciation and amortization

For the year ended December 31, 2012, we had revenue of $1,963.4 million compared with revenue of $1,886.3 million for the year ended December 31, 2011, an increase of 4%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Superstorm Sandy

In October 2012, Superstorm Sandy damaged property throughout the Eastern United States with the most significant damage concentrated in New Jersey and New York. As a direct result of Superstorm Sandy's affect on New York City and neighboring communities, damage from the storm is estimated at over $70 billion. Although the damage from Superstorm Sandy was widespread, the most significant damage was concentrated on the eastern seaboard of the United States. KAR and its subsidiaries did not experience significant damage to its properties or vehicles stored on our properties for our customers. Certain auction activities were delayed due to power outages, temporary loss of internet access and the inability of customers to attend the auctions immediately following the damage created by Superstorm Sandy.

IAA provides salvage auction services to substantially all of the major automobile insurance companies in the United States. Contracts with IAA's insurance customers require IAA to provide services in the event of catastrophic events like Superstorm Sandy. Typically these catastrophic events create a temporary increase in the number of cars processed and sold. The nature of the damage, the

need to service our customers in a short period of time and the geographic concentration in a heavily populated, high cost area, led to substantially increased costs incurred to handle the significantly greater volumes of vehicles. IAA has experienced a number of catastrophic events over the last 10 years, most notably Hurricane Katrina, and none of these individual catastrophic events has resulted in a net loss to IAA.

Superstorm Sandy was unique in that its impact was greatest in the densely populated New York City area. This resulted in a high concentration of total-loss vehicles in a relatively small geographic area. It is estimated that Superstorm Sandy damaged over 200,000 vehicles. IAA's customers assigned over 50,000 total-loss vehicles to IAA for processing. In order to store and process these vehicles, IAA secured over 400 acres of temporary space in New York and New Jersey. In addition, the difficult infrastructure of the New York City and Long Island areas and the shortage of towing capacity required IAA to incur significantly greater towing costs to move damaged vehicles to its sites for processing. In order to serve our customers in this region, IAA had to bring hundreds of employees to the affected areas to assist in the timely processing of these vehicles. All of these activities resulted in a temporary increase in costs related to Superstorm Sandy vehicles.

In the fourth quarter of 2012, IAA incurred a non-recurring pre-tax net loss of $9.1 million related to the processing of Superstorm Sandy vehicles. This net loss has been excluded from Adjusted EBITDA in accordance with the definitions in our Credit Agreement. Furthermore, the sale of Superstorm Sandy vehicles in 2013 is expected to result in an additional pre-tax net loss of approximately $10 million. This loss will be incurred in the first half of 2013 with a majority of the activity taking place in the first quarter of 2013. These losses are net of auction services revenue realized or to be realized upon the sale of the vehicles. The significantly higher tow costs incurred in order to respond to the requirements of our customers, increased occupancy costs due to the leasing of temporary locations to process Superstorm Sandy vehicles and increased labor costs for the temporary work force brought into the New York and New Jersey area will result in a net loss on the sale of the Superstorm Sandy vehicles.

Depreciation and Amortization

Depreciation and amortization increased $10.4 million, or 6%, to $190.2 million for the year ended December 31, 2012, compared with $179.8 million for the year ended December 31, 2011. The increase in depreciation and amortization was primarily representative of an increase of $11.3 million related to OPENLANE, which was acquired in the fourth quarter of 2011, partially offset by a net decrease in depreciation and amortization as five year life computer software and technology assets, revalued as part of the April 20, 2007 merger between ADESA and IAA, became fully amortized.

Interest Expense

Interest expense decreased $23.7 million, or 17%, to $119.4 million for the year ended December 31, 2012, compared with $143.1 million for the year ended December 31, 2011. The decrease in interest expense was primarily representative of $14.5 million in interest expense incurred in the second quarter of 2011 in connection with the settlement and termination of our $650 million notional swap agreement. In addition, interest expense decreased as a result of the second quarter 2011 prepayment of our $450.0 million principal amount 8¾% senior notes and the remaining $131.1 million principal balance of our 10% senior subordinated notes, partially offset by Term Loan B debt, which had an interest rate of 5% at December 31, 2012, compared with our previous term loan debt, which had an interest rate of approximately 3% until its prepayment in May 2011. The decrease in interest expense was also partially offset by an increase in interest expense at AFC, which resulted from an increase in the average U.S. portfolio financed in 2012 as compared with 2011, as well as an increase in the cost of funds, beginning in the second quarter of 2011.

Other Income, Net

We had other income of $4.0 million for the year ended December 31, 2012, compared with $4.7 million for the year ended December 31, 2011. The change in other income was primarily representative of $4.6 million of contingent consideration that was reversed during 2011 as compared with $1.1 million of contingent consideration that was recorded in 2012. The contingent consideration related to certain prior year acquisitions and the adjustments were based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would or would not be met. In addition, we had foreign currency transaction gains for the year ended December 31, 2012, compared with foreign currency transaction losses for the year ended December 31, 2011.

Loss on Extinguishment of Debt

In May 2011, we terminated our previous credit facility, entered into as of April 20, 2007, and recorded a $24.5 million pretax charge representative of the write-off of certain unamortized debt issuance costs associated with our previous term loan. In addition, in June 2011, we prepaid $450.0 million principal amount of the 8¾% senior notes and the remaining $131.1 million principal balance of the 10% senior subordinated notes with proceeds received from Term Loan B and cash on hand. As a result, we also recorded a $29.0 million pretax charge representative of the net premiums payable related to the repurchase of these notes, the write-off of certain unamortized debt issuance costs associated with these notes, as well as certain expenses related to the prepayment of these notes.

Income Taxes

We had an effective tax rate of 39.3% for the year ended December 31, 2012, compared with an effective tax rate of 19.8% for the year ended December 31, 2011. During the year ended December 31, 2012, our effective tax rate of 39.3% benefited from the recognition of $4.7 million of previously unrecognized deferred tax assets related to foreign tax credits and state net operating losses. Excluding the effect of the discrete items for the year ended December 31, 2012, our effective tax rate for the year ended December 31, 2012 would have been 41.9%. During the year ended December 31, 2011, our effective tax rate of 19.8% benefited from the reversal of $18.6 million in reserves for uncertain tax positions due to the expiration of certain statutes of limitations. Excluding the effect of the discrete items for the year ended December 31, 2011, our effective tax rate for the year ended December 31, 2011 would have been 40.2%. The change in the tax rate, excluding the effect of discrete items, was primarily attributable to the increase in non-deductible profit interest expense, as well as differences in effective tax rates in state and foreign jurisdictions. Income before income taxes includes the impact of $12.9 million in profit interest expense and a credit of $0.1 million reflected as negative profit interest expense for the years ended December 31, 2012 and 2011, respectively, which is not deductible by us for income tax purposes.

ADESA Results

(Dollars in millions)	Year Ended December 31, 2012	Year Ended December 31, 2011
ADESA revenue	**$1,053.5**	$1,017.4
Cost of services*	**595.7**	582.3
Gross profit*	**457.8**	435.1
Selling, general and administrative	**249.3**	219.6
Depreciation and amortization	**96.9**	88.1
Operating profit	**$ 111.6**	$ 127.4

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $36.1 million, or 4%, to $1,053.5 million for the year ended December 31, 2012, compared with $1,017.4 million for the year ended December 31, 2011. The increase in revenue was primarily a result of an 8% increase in the number of vehicles sold, partially offset by a 4% decrease in revenue per vehicle sold to approximately $560 for the year ended December 31, 2012, compared with approximately $585 for the year ended December 31, 2011. OPENLANE, which was acquired in the fourth quarter of 2011, incrementally increased ADESA's revenue approximately $77.5 million for the year ended December 31, 2012.

The total number of used vehicles sold at ADESA increased 8% for the year ended December 31, 2012, compared with the year ended December 31, 2011, and resulted in an increase in ADESA revenue of approximately $34.4 million. Excluding OPENLANE, the total number of used vehicles sold at ADESA decreased approximately 4% for the year ended December 31, 2012, compared with the year ended December 31, 2011. The decrease in same store volume sold was attributable to a decline in institutional supplier inventory levels, partially offset by an 11% (excluding OPENLANE) increase in dealer consignment units sold in 2012 compared with 2011. Online sales volumes for ADESA, which includes both LiveBlock and OPENLANE sales, represented approximately 30% of the total vehicles sold by ADESA in 2012, compared with approximately 24% in 2011. LiveBlock operates in real-time with our physical auctions and provides registered buyers with the opportunity to participate in live auctions.

The 4% decrease in revenue per vehicle sold was primarily attributable to lower revenue per vehicle sold at OPENLANE, as fewer ancillary services offerings are utilized for online vehicle sales. In addition, decreases in ancillary and related services resulted in decreased ADESA revenue of approximately $17.2 million, while fluctuations in the Canadian exchange rate resulted in decreased ADESA revenue of approximately $2.6 million. Partially offsetting the decreases in revenue was incremental fee income related to selective fee increases, which resulted in increased ADESA revenue of approximately $21.5 million. The used vehicle conversion percentage at physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, decreased to 57.4% for the year ended December 31, 2012, compared with 60.7% for the year ended December 31, 2011. The decrease in conversion rates is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate, as dealers have the option of returning vehicles to their stores for retail sale or utilizing alternative wholesale channels. For the year ended December 31, 2012, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, an increase from approximately 42% for the year ended December 31, 2011.

Gross Profit

For the year ended December 31, 2012, gross profit for ADESA increased $22.7 million, or 5%, to $457.8 million, compared with $435.1 million for the year ended December 31, 2011. Gross profit for ADESA was 43.5% of revenue for the year ended December 31, 2012, compared with 42.8% of revenue for the year ended December 31, 2011. The increase in gross profit as a percentage of revenue for the year ended December 31, 2012, compared with the year ended December 31, 2011, was primarily the result of the 8% increase in the number of vehicles sold, partially offset by a 2% increase in cost of services. The increase in cost of services was primarily attributable to the addition of OPENLANE costs, as well as lower conversion rates, partially offset by lower utilization of ancillary and related services.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $29.7 million, or 14%, to $249.3 million for the year ended December 31, 2012, compared with $219.6 million for the year ended December 31, 2011, primarily due to the acquisition and integration of OPENLANE, which accounted for approximately $28.1 million of the increase, as well as an increase in incentive-based compensation expense, an increase in professional fees and a loss on the sale of idle property, partially offset by decreases in compensation expense and stock-based compensation expense, as well as fluctuations in the Canadian exchange rate.

IAA Results

	Year Ended December 31,	
(Dollars in millions)	2012	2011
IAA revenue	**$716.1**	$700.1
Cost of services*	**449.5**	415.3
Gross profit*	**266.6**	284.8
Selling, general and administrative	**69.8**	82.3
Depreciation and amortization	**68.1**	65.8
Operating profit	**$128.7**	$136.7

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $16.0 million, or 2%, to $716.1 million for the year ended December 31, 2012, compared with $700.1 million for the year ended December 31, 2011. The increase in revenue was a result of an increase in vehicles sold of approximately 3% for the year ended December 31, 2012. Included in the growth of units sold was an increase in the sale of vehicles sold under purchase agreements, in which the entire selling price of the vehicle is recorded as revenue. Vehicles sold under purchase agreements represented approximately 7% of total salvage vehicles sold for the year ended December 31, 2012, as compared with 5% for the year ended December 31, 2011. Also contributing to the growth in revenue were sales generated from the impact of Superstorm Sandy in the Northeast Region in the fourth quarter of 2012. Online sales volumes for IAA for the years ended December 31, 2012 and 2011 represented approximately half of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2012, gross profit at IAA decreased to $266.6 million, or 37.2% of revenue, compared with $284.8 million, or 40.7% of revenue, for the year ended December 31, 2011. The gross profit decrease was primarily the result of the 8% increase in cost of services. The decrease in gross profit as a percentage of revenue was mainly attributable to an increase in the purchase price of vehicles sold under purchase agreements and an increase in expenses associated with IAA's response to Superstorm Sandy in the Northeast Region, which included increases in towing costs, compensation expense, temporary real estate rental property expense, travel expenses and miscellaneous yard and auction expenses.

Selling, General and Administrative

Selling, general and administrative expenses at IAA decreased $12.5 million, or 15%, to $69.8 million for the year ended December 31, 2012, compared with $82.3 million for the year ended December 31, 2011. The decrease in selling, general and administrative expenses was attributable to a gain on the sale of excess property, as well as decreases in stock-based compensation expense and incentive-based compensation expense.

AFC Results

	Year Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	**2012**	**2011**
AFC revenue		
Interest and fee income	**$ 190.3**	$ 163.7
Other revenue	**10.7**	11.2
Provision for credit losses	**(7.2)**	(6.1)
Total AFC revenue	**193.8**	168.8
Cost of services*	**41.9**	37.6
Gross profit*	**151.9**	131.2
Selling, general and administrative	**21.3**	22.1
Depreciation and amortization	**23.3**	24.7
Operating profit	**$ 107.3**	$ 84.4
Loan transactions	**1,239,755**	1,064,891
Revenue per loan transaction	**$ 156**	$ 159

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2012, AFC revenue increased $25.0 million, or 15%, to $193.8 million, compared with $168.8 million for the year ended December 31, 2011. The increase in revenue was the result of a 16% increase in loan transactions for the year ended December 31, 2012, compared with the same period in 2011, partially offset by a 2% decrease in revenue per loan transaction for the year ended December 31, 2012. In addition, managed receivables increased to $1,004.2 million at December 31, 2012 from $883.2 million at December 31, 2011.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $3, or 2%, primarily as a result of a decrease in average loan values and a decrease in floorplan and other fee income, partially offset by an increase in the average portfolio duration.

Gross Profit

For the year ended December 31, 2012, gross profit for the AFC segment increased $20.7 million, or 16%, to $151.9 million, compared with $131.2 million for the year ended December 31, 2011, primarily as a result of a 15% increase in revenue, partially offset by an 11% increase in cost of services. The increase in cost of services was primarily the result of an increase in the number of employees, as well as increases in lot check fees and incentive-based compensation expense.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $0.8 million, or 4%, to $21.3 million for the year ended December 31, 2012, compared with $22.1 million for the year ended December 31, 2011. The decrease was primarily the result of decreases in stock-based compensation expense and professional fees, partially offset by an increase in compensation expense.

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	**2012**	**2011**
Selling, general and administrative	**$ 78.7**	$ 65.4
Depreciation and amortization	**1.9**	1.2
Operating loss	**$(80.6)**	$(66.6)

Selling, General and Administrative

For the year ended December 31, 2012, selling, general and administrative expenses at the holding company increased $13.3 million, or 20%, to $78.7 million, compared with $65.4 million for the year ended December 31, 2011, primarily as a result of an increase in stock-based compensation expense related to the KAR LLC and Axle LLC operating units (profit interests), which are remeasured each reporting period to fair value, as well as an increase in professional fees. For the year ended December 31, 2012, stock-based compensation expense related to the KAR LLC and Axle LLC operating units was $12.9 million. For the year ended December 31, 2011, we recognized a reduction in stock-based compensation expense related to the KAR LLC and Axle LLC operating units of $0.1 million.

Overview of Results of KAR Auction Services for the Years Ended December 31, 2011 and 2010:

(Dollars in millions except per share amounts)	Year Ended December 31, 2011	2010
Revenues		
ADESA	$1,017.4	$1,075.9
IAA	700.1	610.4
AFC	168.8	136.3
Total revenues	1,886.3	1,822.6
Cost of services*	1,035.2	1,007.3
Gross profit*	851.1	815.3
Selling, general and administrative	389.4	375.2
Depreciation and amortization	179.8	171.3
Operating profit	281.9	268.8
Interest expense	143.1	141.4
Other income, net	(4.7)	(2.1)
Loss on extinguishment of debt	53.5	32.7
Income before income taxes	90.0	96.8
Income taxes	17.8	27.2
Net income	$ 72.2	$ 69.6
Net income per share		
Basic	$ 0.53	$ 0.52
Diluted	$ 0.52	$ 0.51

* Exclusive of depreciation and amortization

For the year ended December 31, 2011, we had revenue of $1,886.3 million compared with revenue of $1,822.6 million for the year ended December 31, 2010, an increase of 3%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased $8.5 million, or 5%, to $179.8 million for the year ended December 31, 2011, compared with $171.3 million for the year ended December 31, 2010. The increase was representative of increased amortization resulting from certain assets placed in service during 2010 and 2011. In addition, OPENLANE had $3.8 million of depreciation and amortization in the fourth quarter of 2011.

Interest Expense

Interest expense increased $1.7 million, or 1%, to $143.1 million for the year ended December 31, 2011, compared with $141.4 million for the year ended December 31, 2010. The increase in interest expense was primarily the result of the second quarter 2011 recognition of $14.5 million in additional interest expense related to the settlement and termination of our $650 million notional swap agreement, which was used to hedge interest payments on the previous Term Loan B. Partially offsetting the increase was a decrease in interest expense as a result of $143.3 million in prepayments on long-term debt in the fourth quarter of 2010, the prepayments of $450.0 million aggregate principal amount outstanding on our fixed senior notes and $131.1 million aggregate principal amount

outstanding on our senior subordinated notes, and the termination of our $1,144.6 million previous Term Loan B in the second quarter of 2011.

Other Income, Net

Other income was $4.7 million for the year ended December 31, 2011, compared with $2.1 million for the year ended December 31, 2010. In 2011, we reversed contingent consideration of approximately $4.6 million related to certain prior year acquisitions based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would not be met. This increase was partially offset by foreign currency transaction losses for the year ended December 31, 2011, compared with foreign currency transaction gains for the year ended December 31, 2010.

Loss on Extinguishment of Debt

In May 2011, we terminated our previous credit facility, dated as of April 20, 2007. In addition, in June 2011, we prepaid the $450.0 million aggregate principal amount outstanding on our fixed senior notes and the $131.1 million aggregate principal amount outstanding on our senior subordinated notes with proceeds received from a new Term Loan B and cash on hand. In the second quarter of 2011, we recorded a $24.5 million pretax charge representative of the write-off of certain unamortized debt issuance costs associated with our previous Term Loan B. In the second quarter of 2011, we also recorded a $29.0 million pretax charge representative of the net premiums payable related to the repurchase of our fixed senior notes and the senior subordinated notes, the write-off of certain unamortized debt issuance costs associated with these notes, as well as certain expenses related to the prepayment of these notes.

In connection with our initial public offering in 2009, we conducted a cash tender offer for certain of our notes. The tender offer was oversubscribed and as such, in accordance with the identified priority levels, only a portion of our senior subordinated notes tendered were accepted for prepayment. In January 2010, we prepaid $225.6 million principal amount of our senior subordinated notes with proceeds received from our initial public offering and the underwriters option to purchase additional shares. In the first quarter of 2010, we recorded a $25.3 million pretax charge representative of the net premiums payable related to the repurchase of our senior subordinated notes, the write-off of certain unamortized debt issuance costs associated with our senior subordinated notes and certain expenses related to the tender offer.

In addition, in the fourth quarter of 2010, we conducted a cash tender offer for certain of our notes. The tender offer was oversubscribed and as such, in accordance with the identified priority levels, only a portion of our senior subordinated notes tendered were accepted for prepayment. In December 2010, we prepaid $68.3 million principal amount of our senior subordinated notes with available cash and recorded a $7.4 million pretax charge representative of the net premiums payable related to the repurchase of our senior subordinated notes, the write-off of certain unamortized debt issuance costs associated with our senior subordinated notes and certain expenses related to the tender offer.

Income Taxes

We had an effective tax rate of 19.8% for the year ended December 31, 2011, compared with 28.1% for the year ended December 31, 2010. During the year ended December 31, 2011, our effective tax rate of 19.8% benefited from the reversal of $18.6 million in tax reserves for uncertain tax positions due to the expiration of certain statute of limitations. During the year ended December 31, 2010, our effective rate of 28.1% also benefited from the release of tax reserves for uncertain tax positions due to the expiration of certain statute of limitations and the recognition of previously unrecognized deferred

tax assets. Excluding the effect of these items in both years, our effective tax rates for the years ended December 31, 2011 and December 31, 2010 would have been 40.2% and 38.3%, respectively. The change in the tax rate, excluding the effect of discrete items, was primarily attributable to the differences in tax rates in state and foreign jurisdictions.

ADESA Results

(Dollars in millions)	Year Ended December 31, 2011	Year Ended December 31, 2010
ADESA revenue	$1,017.4	$1,075.9
Cost of services*	582.3	611.2
Gross profit*	435.1	464.7
Selling, general and administrative	219.6	211.9
Depreciation and amortization	88.1	86.9
Operating profit	$ 127.4	$ 165.9

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $58.5 million, or 5%, to $1,017.4 million for the year ended December 31, 2011, compared with $1,075.9 million for the year ended December 31, 2010. The decrease in revenue was primarily a result of a 7% decrease in the number of vehicles sold, partially offset by a 2% increase in revenue per vehicle sold to approximately $585 for the year ended December 31, 2011, compared to over $570 for the year ended December 31, 2010.

The 2% increase in revenue per vehicle sold was attributable to incremental fee income related to selective fee increases, which resulted in increased ADESA revenue of approximately $20.1 million. In addition, fluctuations in the Canadian exchange rate resulted in increased ADESA revenue of approximately $9.6 million, partially offset by decreases in ancillary services, which resulted in decreased ADESA revenue of approximately $6.5 million.

The total number of used vehicles sold at ADESA decreased 7% for the year ended December 31, 2011, compared with the year ended December 31, 2010, and resulted in a decrease in ADESA revenue of approximately $81.7 million. Excluding OPENLANE, the total number of used vehicles sold at ADESA decreased 10% for the year ended December 31, 2011 compared with the year ended December 31, 2010. The decrease in volume sold was attributable to a decline in supplier inventory levels, partially offset by a 13% (excluding OPENLANE) increase in dealer consignment units sold in 2011 compared with 2010. Online sales volumes for ADESA in 2011 represented approximately 24% of the total vehicles sold by ADESA, compared with over 20% in 2010. Excluding OPENLANE units sold in the fourth quarter, online sales volumes for ADESA would have been approximately 22% in 2011.

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, decreased to 60.7% (excluding OPENLANE) for the year ended December 31, 2011, compared with 65.0% for the year ended December 31, 2010. The decrease in conversion rates is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate, as dealers have the option of returning vehicles to their stores for retail sale. For the year ended December 31, 2011, dealer consignment vehicles represented approximately 42% (excluding OPENLANE) of used vehicles sold at ADESA, an increase from approximately 33% for the year ended December 31, 2010.

Gross Profit

For the year ended December 31, 2011, gross profit for ADESA decreased $29.6 million, or 6%, to $435.1 million, compared with $464.7 million for the year ended December 31, 2010. Gross profit for ADESA was 42.8% of revenue for the year ended December 31, 2011, compared with 43.2% of revenue for the year ended December 31, 2010. The decrease in gross profit as a percentage of revenue for the year ended December 31, 2011, compared with the year ended December 31, 2010 was primarily the result of the 7% decrease in the number of vehicles sold and a decrease in conversion rates. Lower conversion rates result in incremental labor associated with handling the same vehicles more than once.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $7.7 million, or 4%, to $219.6 million for the year ended December 31, 2011, compared with $211.9 million for the year ended December 31, 2010, primarily due to the acquisition of OPENLANE, which accounted for approximately $10.8 million of the increase and fluctuations in the Canadian exchange rate, partially offset by decreases in compensation and incentive compensation, as well as a decrease in marketing costs and other miscellaneous expenses.

IAA Results

	Year Ended December 31,	
(Dollars in millions)	**2011**	**2010**
IAA revenue	$700.1	$610.4
Cost of services*	415.3	362.0
Gross profit*	284.8	248.4
Selling, general and administrative	82.3	78.9
Depreciation and amortization	65.8	58.9
Operating profit	$136.7	$110.6

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $89.7 million, or 15%, to $700.1 million for the year ended December 31, 2011, compared with $610.4 million for the year ended December 31, 2010. The increase in revenue was a result of several factors, including an increase in vehicles sold of approximately 9% for the year ended December 31, 2011. In addition, there was an increase in fee revenue per unit due to an increase in average selling price for vehicles sold. An increase in the sales of purchased vehicles, in which the entire selling price of the vehicle is recorded as revenue, has also contributed to the growth in revenue for salvage vehicles sold for the year ended December 31, 2011. Purchased vehicles represented approximately 5% of total salvage vehicles sold. Online sales volumes for IAA for the years ended December 31, 2011 and 2010 represented approximately half of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2011, gross profit at IAA increased to $284.8 million, or 40.7% of revenue, compared with $248.4 million, or 40.7% of revenue, for the year ended December 31, 2010. The gross profit increase was primarily the result of the increase in revenue. The increase in cost of services was attributable to expenses associated with businesses acquired in the fourth quarter of 2010,

an increase in compensation expense, increases in yard and auction expenses specifically pertaining to reconditioning, processing and towing costs related to the increase in volume, as well as an increase in purchased vehicles.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $3.4 million, or 4%, to $82.3 million for the year ended December 31, 2011, compared with $78.9 million for the year ended December 31, 2010. The increase in selling, general and administrative expenses was attributable to increases in compensation expense, incentive-based compensation expense and professional fees related to information technology and marketing initiatives, partially offset by decreases in stock-based compensation expense, professional fees related to process improvement initiatives and severance costs.

AFC Results

	Year Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	2011	2010
AFC revenue		
Interest and fee income	$ 163.7	$ 137.9
Other revenue	11.2	9.6
Provision for credit losses	(6.1)	(11.2)
Total AFC revenue	168.8	136.3
Cost of services*	37.6	34.1
Gross profit*	131.2	102.2
Selling, general and administrative	22.1	20.6
Depreciation and amortization	24.7	25.0
Operating profit	$ 84.4	$ 56.6
Loan transactions	1,064,891	935,578
Revenue per loan transaction	$ 159	$ 146

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2011, AFC revenue increased $32.5 million, or 24%, to $168.8 million, compared with $136.3 million for the year ended December 31, 2010. The increase in revenue was the result of a 9% increase in revenue per loan transaction for the year ended December 31, 2011, compared with the same period in 2010, and a 14% increase in loan transactions to 1,064,891 for the year ended December 31, 2011. In addition, managed receivables increased to $883.2 million at December 31, 2011 from $771.6 million at December 31, 2010.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $13, or 9%, primarily as a result of a decrease in credit losses and related provision, increases in the average portfolio duration and average loan value, and floorplan and other fee income.

Accounting Standards Update 2009-16 amended ASC 860, *Transfers and Servicing*, and we adopted the guidance on January 1, 2010. The guidance eliminated securitization income accounting and resulted in the recording of interest and fee income, provision for credit losses and interest expense for the finance receivable transactions under the revolving sale agreement. The impact of this guidance on revenue was a net $1.4 million reduction of revenue for the first quarter of 2010. The elimination of

the gain on sale treatment resulted in a reduction of revenue of $2.8 million, while the reclassification of interest expense resulted in an offsetting $1.4 million increase in revenue.

Gross Profit

For the year ended December 31, 2011, gross profit for the AFC segment increased $29.0 million, or 28%, to $131.2 million, compared with $102.2 million for the year ended December 31, 2010, primarily as a result of a 24% increase in revenue, partially offset by a 10% increase in cost of services. The increase in cost of services was primarily the result of an increase in compensation expense associated with an increase in the number of employees, as well as an increase in lot audit expenses, partially offset by a decrease in collection expenses.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $1.5 million, or 7%, for the year ended December 31, 2011, compared with the year ended December 31, 2010. The increase was primarily the result of increases in compensation expense, travel costs, postage and promotion expenses, partially offset by decreases in professional fees and incentive compensation.

Holding Company Results

(Dollars in millions)	Year Ended December 31, 2011	Year Ended December 31, 2010
Selling, general and administrative	$ 65.4	$ 63.8
Depreciation and amortization	1.2	0.5
Operating loss	$(66.6)	$(64.3)

Selling, General and Administrative

For the year ended December 31, 2011, selling, general and administrative expenses at the holding company increased $1.6 million, or 3%, to $65.4 million, compared with $63.8 million for the year ended December 31, 2010, primarily as a result of increases in compensation expense, professional fees and integration costs (primarily related to the Company's acquisition activity), partially offset by decreases in stock-based compensation expense, employee benefit costs, incentive compensation and other miscellaneous expenses. Excluding the increase in professional fees and integration costs associated with acquisitions of $3.5 million, selling, general and administrative costs would have declined $1.9 million in 2011 as compared with 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

(Dollars in millions)	December 31, 2012	December 31, 2011
Cash and cash equivalents	**$108.7**	$ 97.4
Restricted cash	**11.9**	8.2
Working capital	**294.5**	177.0
Amounts available under credit facility*	**250.0**	181.1
Cash flow from operations	**290.2**	305.8

* There were related outstanding letters of credit totaling approximately $23.6 million and $28.5 million at December 31, 2012 and 2011, respectively, which reduced the amount available for borrowings under the credit facility.

Working Capital

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

Our available cash, which excludes cash in transit, was $74.6 million at December 31, 2012. Of this amount, approximately $38.4 million was held by foreign subsidiaries, a portion of which is considered to be permanently reinvested in our non-U.S. businesses. If the portion of funds held by our foreign subsidiaries that are considered to be permanently reinvested were to be repatriated, tax expense would need to be accrued at the U.S. statutory rate, net of any applicable foreign tax credits. Such foreign tax credits would substantially offset any U.S. taxes that would be due in the event cash held by our foreign subsidiaries was repatriated.

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

Credit Facilities

On May 19, 2011, we established a $1.7 billion, six-year senior secured term loan facility ("Term Loan B") and a $250 million, five-year senior secured revolving credit facility, the terms of which are set forth in the Credit Agreement, dated as of May 19, 2011 (the "Credit Agreement"). The credit facility is available for letters of credit, working capital and general corporate purposes (including refinancing certain Existing Indebtedness (as defined in the Credit Agreement)). The Credit Agreement provides that with respect to the revolving credit facility, up to $75 million is available for letters of

credit and up to $75 million is available for swing line loans. The Credit Agreement also permits up to $300 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders (with the consent of the administrative agent).

On November 29, 2012, we entered into an amendment to the Credit Agreement. The amendment provided for, among other things, modifications to the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) financial covenant and modifications to increase the amount of Restricted Payments (as defined in the Credit Agreement) permitted to be paid under the Credit Agreement. Restricted payments include, among other things, dividends, stock buybacks and other payments made in respect of the Company's equity securities.

Term Loan B was issued at a discount of $8.5 million. The discount is being amortized to interest expense over the six-year term of the loan. Term Loan B is payable in quarterly installments equal to 0.25% of the original aggregate principal amount. Payments commenced on September 30, 2011, and the balance is payable at maturity. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to (i) the net proceeds of certain debt offerings, asset sales and certain insurance recovery events; and (ii) for any fiscal year ending on or after December 31, 2011, any Excess Cash Flow, as defined in the Credit Agreement, on or before the 105th day following the end of the fiscal year. There were no excess cash flow payments, as defined, due for the year ended December 31, 2011. For the year ended December 31, 2012, the Company has estimated that an excess cash flow payment of approximately $39.4 million will be made in the second quarter of 2013. The prepayment will be credited to prepay in order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of Term Loan B, and thereafter to the remaining scheduled quarterly installments of Term Loan B on a pro rata basis. As such, after the March 31, 2013 quarterly installment on Term Loan B and the excess cash flow payment, there will be no further quarterly installments due until June 30, 2015.

Term Loan B bears interest at an adjusted LIBOR rate plus 3.75% (with an adjusted LIBOR rate floor of 1.25% per annum) and revolving loan borrowings at an adjusted LIBOR rate plus 3.50%; however, for specified types of borrowings, the Company may elect to make term loan borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.75% and revolving loan borrowings at a Base Rate plus 2.50%. The rate on Term Loan B was 5.0% at December 31, 2012. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate will step down by 25 basis points. The Company also pays a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of the credit facility. The fee may step down to 37.5 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

On December 31, 2012, $1,674.5 million was outstanding on Term Loan B and there were no borrowings on the revolving credit facility. At December 31, 2011, $68.9 million was drawn on the revolving credit facility. In addition, there were related outstanding letters of credit in the aggregate amount of $23.6 million and $28.5 million at December 31, 2012 and December 31, 2011, respectively, which reduce the amount available for borrowings under the credit facility. Our Canadian operations also have a C$8 million line of credit which was undrawn as of December 31, 2012. However, there were related letters of credit outstanding totaling approximately C$1.2 million at December 31, 2012, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and perfected first-priority security interests in 100% of the equity interests of certain of the Company's and the

Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first-tier foreign subsidiaries and (b) perfected first-priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions.

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

Certain covenants contained within the Credit Agreement are critical to an investor's understanding of our financial liquidity, as the failure to maintain compliance with these covenants could result in a default and allow our lenders to declare all amounts borrowed immediately due and payable. The maximum consolidated senior secured leverage ratio is required to be met when there are revolving loans outstanding under our Credit Agreement. Beginning with the quarter ended December 31, 2012 the ratio could not exceed 4.0 to 1.0 and continues to decline throughout the remaining life of the Credit Facility until it reaches 2.5 to 1.0 at March 31, 2016. Our actual consolidated senior secured leverage ratio was 3.3 to 1.0 at December 31, 2012.

In addition, the indenture governing our floating rate senior notes contains certain financial and operational restrictions that, similar to the Credit Agreement, limit our ability to pay dividends and other distributions, make certain acquisitions or investments, incur indebtedness, grant liens and sell assets. The covenants in the Credit Agreement and the indenture governing our floating rate senior notes affect our operating flexibility by, among other things, restricting our ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. We were in compliance with the covenants in the Credit Agreement and the indenture governing our floating rate senior notes at December 31, 2012.

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

Securitization Facilities

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary

("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of undivided interests in certain eligible finance receivables subject to committed liquidity. The agreement expires on June 30, 2014. AFC Funding Corporation had committed liquidity of $650 million for U.S. finance receivables at December 31, 2012.

We also have an agreement for the securitization of Automotive Finance Canada, Inc.'s ("AFCI") receivables. This securitization facility expires on June 30, 2014. AFCI's committed liquidity is provided through a third party conduit (separate from the U.S. conduit) and was C$100 million at December 31, 2012. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

AFC managed total finance receivables of $1,004.2 million and $883.2 million at December 31, 2012 and December 31, 2011, respectively. AFC's allowance for losses was $8.0 million and $9.0 million at December 31, 2012 and December 31, 2011, respectively.

As of December 31, 2012 and December 31, 2011, $996.0 million and $877.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $713.3 million and $610.3 million of obligations collateralized by finance receivables at December 31, 2012 and December 31, 2011, respectively. After the occurrence of a termination event, as defined in the U.S. securitization agreement, the bank conduit facility may, and could, cause the stock of AFC Funding Corporation to be transferred to the bank conduit facility, though as a practical matter the bank conduit facility would look to the liquidation of the receivables under the transaction documents as their primary remedy.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2012, we were in compliance with the covenants in the securitization agreements.

EBITDA and Adjusted EBITDA

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

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

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

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

(Dollars in millions)	Year Ended December 31, 2012				
	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$ 38.4	$ 56.5	$ 64.1	$ (67.0)	$ 92.0
Add back:					
Income taxes	14.5	33.7	46.0	(34.6)	59.6
Interest expense, net of interest income	0.8	1.4	15.0	101.9	119.1
Depreciation and amortization	96.9	68.1	23.3	1.9	190.2
Intercompany	60.2	38.3	(17.8)	(80.7)	—
EBITDA	210.8	198.0	130.6	(78.5)	460.9
Adjustments	20.3	(0.7)	(10.4)	21.0	30.2
Superstorm Sandy	—	9.1	—	—	9.1
Adjusted EBITDA	$231.1	$206.4	$120.2	$ (57.5)	$500.2

(Dollars in millions)	Year Ended December 31, 2011				
	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$ 55.8	$ 65.5	$ 57.2	$(106.3)	$ 72.2
Add back:					
Income taxes	17.9	36.1	29.6	(65.8)	17.8
Interest expense, net of interest income	0.7	2.1	12.0	128.0	142.8
Depreciation and amortization	88.1	65.8	24.7	1.2	179.8
Intercompany	52.4	38.3	(14.4)	(76.3)	—
EBITDA	214.9	207.8	109.1	(119.2)	412.6
Adjustments	17.3	3.9	(7.2)	60.6	74.6
Adjusted EBITDA	$232.2	$211.7	$101.9	$ (58.6)	$487.2

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

(Dollars in millions)	Three Months Ended				Twelve Months Ended
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	December 31, 2012
Net income (loss)	$ 26.0	$ 23.9	$ 19.2	$ 22.9	$ 92.0
Add back:					
Income taxes	18.4	20.2	13.8	7.2	59.6
Interest expense, net of interest income	30.3	29.6	29.8	29.4	119.1
Depreciation and amortization	48.6	48.0	46.8	46.8	190.2
EBITDA	123.3	121.7	109.6	106.3	460.9
Nonrecurring charges	5.4	3.2	4.0	4.7	17.3
Noncash charges	9.1	6.1	6.8	3.1	25.1
AFC interest expense	(2.9)	(2.9)	(3.1)	(3.3)	(12.2)
Superstorm Sandy	—	—	—	9.1	9.1
Adjusted EBITDA	$134.9	$128.1	$117.3	$119.9	$500.2

Summary of Cash Flows

(Dollars in millions)	Year Ended December 31, 2012	2011
Net cash provided by (used by):		
Operating activities	**$ 290.2**	$ 305.8
Investing activities	**(227.6)**	(419.8)
Financing activities	**(53.5)**	93.0
Effect of exchange rate on cash	**2.2**	(0.7)
Net increase (decrease) in cash and cash equivalents	**$ 11.3**	$ (21.7)

Cash flow from operating activities was $290.2 million for the year ended December 31, 2012, compared with $305.8 million for the year ended December 31, 2011. The decrease in operating cash flow was primarily impacted by the $53.5 million loss on extinguishment of debt included in operating results in 2011, which more than offset increases in net income and depreciation and amortization for the year ended December 31, 2012 compared with the year ended December 31, 2011.

Net cash used by investing activities was $227.6 million for the year ended December 31, 2012, compared with $419.8 million for the year ended December 31, 2011. The change in net cash used by investing activities was primarily the result of lower levels of spending on acquisitions, as we spent $213.5 million less on acquisitions during the year ended December 31, 2012 compared with the same period in 2011. The decrease in cash spent on acquisitions was partially offset by an increase of $16.2 million spent on capital items. For a discussion of the Company's capital expenditures, see "Capital Expenditures" below.

Net cash used by financing activities was $53.5 million for the year ended December 31, 2012, compared with net cash provided by financing activities of $93.0 million for the year ended December 31, 2011. The change in net cash used by financing activities was primarily attributable to the 2012 repayment of $68.9 million that was outstanding on our revolving credit facility, as well as a decrease in book overdrafts for the year ended December 31, 2012 and the payment of $26.0 million in dividends to stockholders in the fourth quarter of 2012.

Capital Expenditures

Capital expenditures for the years ended December 31, 2012 and 2011 approximated $102.0 million and $85.8 million, respectively. Capital expenditures were greater than expected in 2012 and related directly to capital deployed in the fourth quarter in order to handle Superstorm Sandy vehicles. Capital expenditures were funded primarily from internally generated funds. We continue to invest in our core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately $95 million for fiscal year 2013. Anticipated expenditures are primarily attributable to ongoing information system projects, integration of OPENLANE and ADESA information systems, upkeep and improvements at existing vehicle auction facilities, improvements in information technology systems and infrastructure and expansion and relocation of existing auction sites that are at capacity. Future capital expenditures could vary substantially based on capital project timing and the initiation of new information systems projects to support our business strategies.

Dividends

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. The initial quarterly dividend of $0.19 per share was 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. Subject to board of director approval, we

expect to pay a quarterly dividend of $0.19 per share in 2013 using cash flow from operations. On February 20, 2013, the board of directors announced a cash dividend of $0.19 per share payable on April 4, 2013, to stockholders of record at the close of business on March 25, 2013. Future dividend decisions will be based on and affected by 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. We have no prior history of declaring or paying any cash or other dividends, and no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Contractual Obligations

The table below sets forth a summary of our contractual debt and lease obligations as of December 31, 2012. Some of the figures included in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we may actually pay in future periods could vary from those reflected in the table. The following summarizes our contractual cash obligations as of December 31, 2012 *(in millions)*:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	More than 5 Years
Long-term debt					
$250 million revolving credit facility (a)	$ —	$ —	$ —	$ —	$ —
Term loan B (a)	1,674.5	43.7	12.8	1,618.0	—
Floating rate senior notes due 2014 (a)	150.0	—	150.0	—	—
Capital lease obligations (b)	32.1	15.5	16.2	0.4	—
Interest payments relating to long-term debt (c)	368.0	89.6	167.2	111.2	—
Postretirement benefit payments (d)	0.4	0.1	0.1	0.1	0.1
Operating leases (e)	933.8	95.0	163.7	138.2	536.9
Total contractual cash obligations	$3,158.8	$243.9	$510.0	$1,867.9	$537.0

(a) The table assumes the long-term debt is held to maturity.

(b) We have entered into capital leases for furniture, fixtures, equipment and software. Future capital lease obligations would change if we entered into additional capital lease agreements.

(c) Interest payments on long-term debt are projected based on the contractual rates of the debt securities. Interest rates for the variable rate debt instruments were held constant at current rates due to their unpredictable nature.

(d) Estimated future benefit payments for certain health care and death benefits for the retired employees of Underwriters Salvage Company, or USC. IAA assumed the obligation in connection with the acquisition of the capital stock of USC in 1994.

(e) Operating leases are entered into in the normal course of business. We lease most of our auction facilities, as well as other property and equipment under operating leases. Some lease agreements contain options to renew the lease or purchase the leased property. Future operating lease obligations would change if the renewal options were exercised and/or if we entered into additional operating lease agreements.

Critical Accounting Estimates

In preparing the financial statements in accordance with U.S. generally accepted accounting principles, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex. Consequently, actual results could differ from those estimates. Accounting measurements that management believes are most critical to the reported results of our operations and financial condition include: uncollectible receivables and allowance for credit losses and doubtful accounts, goodwill and long-lived assets, self-insurance programs, legal proceedings and other loss contingencies and income taxes.

In addition to the critical accounting estimates, there are other items used in the preparation of the consolidated financial statements that require estimation, but are not deemed critical. Changes in estimates used in these and other items could have a material impact on our financial statements.

We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. In cases where management estimates are used, they are based on historical experience, information from third-party professionals, and various other assumptions believed to be reasonable. In addition, our most significant accounting policies are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements for the year ended December 31, 2012, which are included in this Annual Report on Form 10-K.

Uncollectible Receivables and Allowance for Credit Losses and Doubtful Accounts

We maintain an allowance for credit losses and doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The allowances for credit losses and doubtful accounts are based on management's evaluation of the receivables portfolio under current economic conditions, the volume of the portfolio, overall portfolio credit quality, review of specific collection matters and such other factors which, in management's judgment, deserve recognition in estimating losses. Specific collection matters can be impacted by the outcome of negotiations, litigation and bankruptcy proceedings.

Due to the nature of our business, substantially all trade receivables are due from vehicle dealers, salvage buyers, institutional customers and insurance companies. We generally have possession of vehicles or vehicle titles collateralizing a significant portion of these receivables. At the auction sites, risk is mitigated through a pre-auction registration process that includes verification of identification, bank accounts, dealer license status, acceptable credit history, buying history at other auctions and the written acceptance of all of the auction's policies and procedures.

AFC's allowance for credit losses includes an estimate of losses for finance receivables. AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, which includes holding vehicle titles where permitted.

Goodwill and Long-Lived Assets

When we acquire businesses, we estimate and recognize the fair values of tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The purchase accounting process requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are

inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

In accordance with ASC 350, *Intangibles—Goodwill and Other*, we assess goodwill for impairment at least annually and whenever events or circumstances indicate that the carrying amount of the goodwill may be impaired. Important factors that could trigger an impairment review include significant under-performance relative to historical or projected future operating results; significant negative industry or economic trends; and our market valuation relative to our book value. In assessing goodwill, we must make assumptions regarding estimated future cash flows and earnings, changes in our business strategy and economic conditions affecting market valuations related to the fair values of our three reporting units (which consist of our three operating and reportable business segments: ADESA Auctions, IAA and AFC). In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of or otherwise exiting businesses, which could result in an impairment of goodwill.

ASC 350 permits an entity to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment model. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The quantitative assessment for goodwill impairment is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

We review long-lived assets for possible impairment whenever circumstances indicate that their carrying amount may not be recoverable. If it is determined that the carrying amount of a long-lived asset exceeds the total amount of the estimated undiscounted future cash flows from that asset, we would recognize a loss to the extent that the carrying amount exceeds the fair value of the asset. Management judgment is involved in both deciding if testing for recovery is necessary and in estimating undiscounted cash flows. Our impairment analysis is based on the current business strategy, expected growth rates and estimated future economic conditions.

Self-Insurance Programs

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 have insurance coverage that limits the exposure on individual claims. We also have insurance coverage that limits the total exposure to overall automobile, general liability and workers' compensation claims. The cost of the insurance is expensed over the contract periods.

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. Trends in healthcare costs could have a significant impact on anticipated claims. If actual claims are higher than anticipated, our accrual might be insufficient to cover the claims costs, which would have an adverse impact on the operating results in that period.

Legal Proceedings and Other Loss Contingencies

We are subject to the possibility of various legal proceedings and other loss contingencies, many involving litigation incidental to the business and a variety of environmental laws and regulations. Litigation and other loss contingencies are subject to inherent uncertainties and the outcomes of such matters are often very difficult to predict and generally are resolved over long periods of time. We consider the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. Estimating probable losses requires the analysis of multiple possible outcomes that often are dependent on the judgment about potential actions by third parties. Contingencies are recorded in the consolidated financial statements, or otherwise disclosed, in accordance with ASC 450, *Contingencies*. We accrue for an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred.

Income Taxes

All income tax amounts reflect the use of the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes.

We operate in multiple tax jurisdictions with different tax rates and must determine the appropriate allocation of income to each of these jurisdictions. In the normal course of business, we will undergo scheduled reviews by taxing authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Tax reviews often require an extended period of time to resolve and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates.

We record our tax provision based on existing laws, experience with previous settlement agreements, the status of current IRS (or other taxing authority) examinations and management's understanding of how the tax authorities view certain relevant industry and commercial matters. In accordance with ASC 740, *Income Taxes*, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We establish reserves when we believe that certain positions may not prevail if challenged by a taxing authority. We adjust these reserves in light of changing facts and circumstances.

New Accounting Standards

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

We do not expect the adoption of ASU 2012-02 will have a material impact on the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. We have not entered into any foreign exchange contracts to hedge changes in the Canadian or Mexican exchange rates. Canadian currency translation negatively affected net income by approximately $1.0 million for the year ended December 31, 2012 and positively affected net income by approximately $1.9 million for the year ended December 31, 2011. Currency exposure of our Mexican operations is not material to the results of operations.

Interest Rates

We are exposed to interest rate risk on our variable rate borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. We use interest rate derivative agreements to manage the variability of cash flows to be paid due to interest rate movements on our variable rate debt. We have designated our interest rate derivatives as cash flow hedges. The earnings impact of the derivatives designated as cash flow hedges are recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in current earnings. There was no significant ineffectiveness in the years ended December 31, 2012 or 2011.

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

The fair value of the interest rate derivatives is based on quoted market prices for similar instruments from commercial banks. At December 31, 2012, the aggregate fair value of the three interest rate caps was a less than $0.1 million asset recorded in "Other current assets" on the consolidated balance sheet. At December 31, 2011, the aggregate fair value of the three interest rate caps was a $1.0 million asset recorded in "Other assets" on the consolidated balance sheet. Unrealized gains or losses on the interest rate derivatives are included as a component of "Accumulated other comprehensive income." At December 31, 2012, there was a net unrealized loss totaling $0.2 million, net of tax benefits of $0.1 million. At December 31, 2011, there was a net unrealized gain totaling $0.1 million, net of tax benefits of less than $0.1 million. We were exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. We have only partially hedged our exposure to interest rate fluctuations on our variable rate debt. A sensitivity analysis of the impact on our variable rate debt instruments to a hypothetical 100 basis point increase in short-term rates for the year ended December 31, 2012 would have resulted in an increase in interest expense of approximately $1.9 million.

Item 8. Financial Statements and Supplementary Data

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KAR Auction Services, Inc.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed under the supervision of our principal executive officer and principal financial and accounting officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and include those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets;
- Provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2012, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2012. During our assessment, we did not identify any material weaknesses in our internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements for the year ended December 31, 2012, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 as stated in their report included in Item 8, *Financial Statements and Supplementary Data,* of this Annual Report on Form 10-K.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer
(Principal Executive Officer)

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Chief Financial Officer
(Principal Financial and Accounting Officer)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
KAR Auction Services, Inc.:

We have audited the accompanying consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KAR Auction Services, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, KAR Auction Services, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

/s/ KPMG LLP

Indianapolis, Indiana
February 22, 2013

KAR Auction Services, Inc.

Consolidated Statements of Income

(In millions, except per share data)

	Year Ended December 31,		
	2012	**2011**	**2010**
Operating revenues			
ADESA Auction Services	**$1,053.5**	$1,017.4	$1,075.9
IAA Salvage Services	**716.1**	700.1	610.4
AFC	**193.8**	168.8	136.3
Total operating revenues	**1,963.4**	1,886.3	1,822.6
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	**1,087.1**	1,035.2	1,007.3
Selling, general and administrative	**419.1**	389.4	375.2
Depreciation and amortization	**190.2**	179.8	171.3
Total operating expenses	**1,696.4**	1,604.4	1,553.8
Operating profit	**267.0**	281.9	268.8
Interest expense	**119.4**	143.1	141.4
Other income, net	**(4.0)**	(4.7)	(2.1)
Loss on extinguishment of debt	**0**	53.5	32.7
Income before income taxes	**151.6**	90.0	96.8
Income taxes	**59.6**	17.8	27.2
Net income	**$ 92.0**	$ 72.2	$ 69.6
Net income per share			
Basic	**$ 0.67**	$ 0.53	$ 0.52
Diluted	**$ 0.66**	$ 0.52	$ 0.51
Dividends declared per common share	**$ 0.19**	$ 0.00	$ 0.00

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.

Consolidated Statements of Comprehensive Income

(In millions)

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	**$92.0**	$72.2	$69.6
Other comprehensive income, net of tax			
Foreign currency translation gain (loss)	**7.3**	(9.0)	12.0
Unrealized gain (loss) on interest rate deriviatives, net of tax of $(0.2), $0.9, and $(3.0) for the years ended December 31, 2012, 2011 and 2010	**(0.3)**	1.6	(4.8)
Early termination of swap agreement, net of tax of $5.5 for the year ended December 31, 2011	**0**	9.0	0
Unrealized loss on postretirement benefit obligation	**0**	0	(0.1)
Total other comprehensive income, net of tax	**7.0**	1.6	7.1
Comprehensive income	**$99.0**	$73.8	$76.7

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions)

	December 31,	
	2012	**2011**
Assets		
Current assets		
Cash and cash equivalents	**$ 108.7**	$ 97.4
Restricted cash	**11.9**	8.2
Trade receivables, net of allowances of $5.3 and $6.4	**342.4**	297.4
Finance receivables, net of allowances $8.0 and $9.0	**996.2**	874.2
Deferred income tax assets	**35.4**	37.5
Other current assets	**86.8**	58.5
Total current assets	**1,581.4**	1,373.2
Other assets		
Goodwill	**1,679.6**	1,679.5
Customer relationships, net of accumulated amortization of $405.3 and $325.8	**618.9**	694.0
Other intangible assets, net of accumulated amortization of $168.9 and $139.5	**305.2**	305.9
Unamortized debt issuance costs	**24.9**	28.6
Other assets	**11.6**	11.2
Total other assets	**2,640.2**	2,719.2
Property and equipment, net of accumulated depreciation of $415.5 and $362.4	**700.7**	686.7
Total assets	**$4,922.3**	$4,779.1

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions, except share and per share data)

	December 31,	
	2012	2011
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 388.4**	$ 367.8
Accrued employee benefits and compensation expenses	**63.5**	57.7
Accrued interest	**1.6**	2.3
Other accrued expenses	**75.8**	71.7
Income taxes payable	**0.6**	0.5
Obligations collateralized by finance receivables	**713.3**	610.3
Current maturities of long-term debt	**43.7**	85.9
Total current liabilities	**1,286.9**	1,196.2
Non-current liabilities		
Long-term debt	**1,774.6**	1,816.9
Deferred income tax liabilities	**318.6**	323.9
Other liabilities	**98.5**	98.9
Total non-current liabilities	**2,191.7**	2,239.7
Commitments and contingencies (Note 16)		
Stockholders' equity		
Preferred stock, $0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	**0**	0
Common stock, $0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
136,657,645 (2012)		
136,271,358 (2011)	**1.4**	1.4
Additional paid-in capital	**1,433.9**	1,406.4
Accumulated deficit	**(26.7)**	(92.7)
Accumulated other comprehensive income	**35.1**	28.1
Total stockholders' equity	**1,443.7**	1,343.2
Total liabilities and stockholders' equity	**$4,922.3**	$4,779.1

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.
Consolidated Statements of Stockholders' Equity
(In millions)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2009	134.5	$1.4	$1,355.2	$(234.5)	$19.4	$1,141.5
Net income				69.6		69.6
Other comprehensive income, net of tax					7.1	7.1
Issuance of common stock under stock plans	1.0		4.9			4.9
Stock-based compensation expense			19.8			19.8
Excess tax benefits from stock-based compensation			1.7			1.7
Balance at December 31, 2010	135.5	$1.4	$1,381.6	$(164.9)	$26.5	$1,244.6
Net income				72.2		72.2
Other comprehensive income, net of tax					1.6	1.6
Issuance of common stock under stock plans	0.8		6.0			6.0
Stock-based compensation expense			17.0			17.0
Excess tax benefits from stock-based compensation			1.8			1.8
Balance at December 31, 2011	136.3	$1.4	$1,406.4	$ (92.7)	$28.1	$1,343.2
Net income				92.0		92.0
Other comprehensive income, net of tax					7.0	7.0
Issuance of common stock under stock plans	0.4		3.3			3.3
Stock-based compensation expense			23.2			23.2
Excess tax benefits from stock-based compensation			1.0			1.0
Cash dividends paid to stockholders ($0.19 per share)				(26.0)		(26.0)
Balance at December 31, 2012	**136.7**	**$1.4**	**$1,433.9**	**$ (26.7)**	**$35.1**	**$1,443.7**

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.

Consolidated Statements of Cash Flows

(In millions)

	Year Ended December 31,		
	2012	2011	2010
Operating activities			
Net income	**$ 92.0**	$ 72.2	$ 69.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**190.2**	179.8	171.3
Provision for credit losses	**9.5**	8.3	13.8
Deferred income taxes	**(3.7)**	(3.5)	(2.3)
Amortization of debt issuance costs	**7.1**	10.1	13.7
Stock-based compensation	**23.2**	17.0	19.8
Contingent consideration adjustment	**1.1**	(4.6)	0
(Gain) loss on disposal of fixed assets	**(1.5)**	(0.2)	1.3
Loss on extinguishment of debt	**0**	53.5	32.7
Other non-cash, net	**13.2**	9.8	11.1
Changes in operating assets and liabilities, net of acquisitions:			
Finance receivables held for sale	**0**	0	50.2
Retained interests in finance receivables sold	**0**	0	89.8
Trade receivables and other assets	**(80.0)**	1.5	(33.6)
Accounts payable and accrued expenses	**39.1**	(38.1)	30.2
Net cash provided by operating activities	**290.2**	305.8	467.6
Investing activities			
Net increase in finance receivables held for investment	**(126.5)**	(120.1)	(669.0)
Acquisition of businesses, net of cash acquired	**(1.1)**	(214.6)	(48.7)
Purchases of property, equipment and computer software	**(102.0)**	(85.8)	(78.9)
Proceeds from the sale of property and equipment	**5.7**	0.3	2.0
(Increase) decrease in restricted cash	**(3.7)**	0.4	0.7
Net cash used by investing activities	**(227.6)**	(419.8)	(793.9)
Financing activities			
Net (decrease) increase in book overdrafts	**(24.1)**	32.5	(16.7)
Net (decrease) increase in borrowings from lines of credit	**(68.9)**	68.9	0
Net increase in obligations collateralized by finance receivables	**101.1**	90.2	520.1
Proceeds from long-term debt	**0**	1,691.5	0
Payments for debt issuance costs/amendments	**(3.4)**	(30.6)	(1.3)
Payments on long-term debt	**(17.0)**	(1,153.1)	(103.3)
Payment for early extinguishment of debt	**0**	(600.7)	(317.4)
Payments on capital leases	**(13.9)**	(8.5)	(5.0)
Payments of contingent consideration and deferred acquisition costs	**(5.6)**	(3.9)	(2.0)
Initial net investment for interest rate caps	**0**	(1.1)	0
Issuance of common stock under stock plans	**3.3**	6.0	4.9
Excess tax benefits from stock-based compensation	**1.0**	1.8	1.7
Dividends paid to stockholders	**(26.0)**	0	0
Net cash provided by (used by) financing activities	**(53.5)**	93.0	81.0
Effect of exchange rate changes on cash	**2.2**	(0.7)	0.5
Net increase (decrease) in cash and cash equivalents	**11.3**	(21.7)	(244.8)
Cash and cash equivalents at beginning of period	**97.4**	119.1	363.9
Cash and cash equivalents at end of period	**$ 108.7**	$ 97.4	$ 119.1
Cash paid for interest	**$ 109.0**	$ 136.8	$ 129.4
Cash paid for taxes, net of refunds	**$ 65.3**	$ 36.5	$ 36.3

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

Note 1—Organization and Other Matters

KAR Auction Services, Inc. was organized in the State of Delaware on November 9, 2006. We are a holding company that was organized for the purpose of consummating a merger with ADESA, Inc. and related transactions that resulted in ADESA and Insurance Auto Auction, Inc. becoming, directly or indirectly, subsidiaries of the Company. We had no operations prior to the merger transactions on April 20, 2007. In December 2009, KAR Auction Services, Inc. completed an initial public offering, which resulted in the sale of 27,656,050 shares of common stock.

Defined Terms

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

- "we," "us," "our," "KAR Auction Services" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries unless the context otherwise requires;
- "ADESA" refers, collectively, to ADESA, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries, including OPENLANE, Inc. ("OPENLANE", a wholly owned subsidiary of ADESA and its subsidiaries);
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly owned subsidiary of ADESA and its related subsidiaries;
- "Axle LLC" refers to Axle Holdings II, LLC, which is owned by affiliates of certain of the Equity Sponsors (Kelso & Company and Parthenon), certain members or former members of IAA management and certain co-investors in connection with the acquisition of IAA in 2005. Axle LLC is the former ultimate parent company of IAA and is a holder of common equity interests in KAR LLC;
- "Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent, as amended on November 29, 2012;
- "2007 Credit Agreement" refers to the previous Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended on June 10, 2009, October 23, 2009 and November 11, 2010. The 2007 Credit Agreement was terminated concurrently with our entry into the Credit Agreement described above;
- "Credit Facility" refers to the $1.7 billion, six-year senior secured term loan facility and the $250 million, five-year senior secured revolving credit facility, the terms of which are set forth in the Credit Agreement;
- "Equity Sponsors" refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P., which collectively own through their respective affiliates a majority of the equity of KAR Auction Services;

Note 1—Organization and Other Matters (Continued)

- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries; and
- "KAR LLC" refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors and management of the Company, and owns a majority of our common stock.

Business and Nature of Operations

As of December 31, 2012, we have a network of 67 ADESA whole car auction sites and 163 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. Our auctions facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit internet buyers to participate in physical auctions. ADESA Auctions and IAA are leading, national providers of wholesale and salvage vehicle auctions and related vehicle remarketing services for the automotive industry in North America. ADESA's online service offerings include OPENLANE, a leader in internet-based remarketing solutions, and allow us to offer vehicles for sale from any location. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA Auctions and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership to vehicles sold at the auctions. Generally fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

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

IAA is one of the two largest providers of salvage vehicle auctions and related services in North America. The salvage auctions facilitate the remarketing of damaged vehicles that are designated as total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound transportation logistics, inspections, evaluations, salvage recovery services, titling and settlement administrative services.

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing was provided through 104 locations throughout the United States and Canada at December 31, 2012. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAA, other used vehicle and salvage auctions and non-auction purchases.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of KAR Auction Services and all of its majority owned subsidiaries. Significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates based in part on assumptions about current, and for some estimates, future economic and market conditions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Although the current estimates contemplate current conditions and expected future changes, as appropriate, it is reasonably possible that future conditions could differ from these estimates, which could materially affect our results of operations and financial position. Among other effects, such changes could result in future impairments of goodwill, intangible assets and long-lived assets, incremental losses on finance receivables, additional allowances on accounts receivable and deferred tax assets and changes in self insurance reserves.

Business Segments

Our operations are grouped into three operating segments: ADESA Auctions, IAA and AFC. The three operating segments also serve as our reportable business segments. Operations are measured through detailed budgeting and monitoring of contributions to consolidated income by each business segment.

Derivative Instruments and Hedging Activity

We recognize all derivative financial instruments in the consolidated financial statements at fair value in accordance with Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*. We currently use three interest rate caps that are designated and qualify as cash flow hedges to manage the variability of cash flows to be paid due to interest rate movements on our variable rate debt. We do not, however, enter into hedging contracts for trading or speculative purposes. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks. The fair value of the derivatives is recorded in "Other current assets," "Other assets" or "Other liabilities" on the consolidated balance sheet based on the gain or loss position of the contracts and their remaining term. Changes in the fair value of the interest rate derivatives designated as cash flow hedges are recorded net of tax in "Other comprehensive income." Gains and losses on the interest rate derivatives are subsequently included in earnings as an adjustment to interest expense in the same periods in which the related interest payment being hedged is recognized in earnings. We use the change in variable cash flows method to assess hedge effectiveness in accordance with ASC 815.

Foreign Currency Translation

Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at average exchange rates in effect during the year. Assets and liabilities of foreign operations are

Note 2—Summary of Significant Accounting Policies (Continued)

translated using the exchange rates in effect at year end. Foreign currency transaction gains and losses are included in the consolidated statements of income within "Other (income) expense, net" and resulted in a gain of $0.4 million for the year ended December 31, 2012, a loss of $0.9 million for the year ended December 31, 2011 and a gain of $1.1 million for the year ended December 31, 2010. Adjustments arising from the translation of net assets located outside the U.S. (gains and losses) are shown as a component of "Accumulated other comprehensive income."

Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. These investments are valued at cost, which approximates fair value.

Restricted Cash

AFC Funding Corporation, a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary of AFC, is required to maintain a cash reserve of 1 percent of total receivables sold to the bank conduit facility as security for the receivables sold. Automotive Finance Canada, Inc. ("AFCI") is also required to maintain a cash reserve of 1 percent of total receivables sold to its securitization facility. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements. AFC also maintains other cash reserves from time to time associated with its banking relationships.

Receivables

Trade receivables include the unremitted purchase price of vehicles purchased by third parties at the auctions, fees to be collected from those buyers and amounts due for services provided by us related to certain consigned vehicles in our possession. The amounts due with respect to the consigned vehicles are generally deducted from the sales proceeds upon the eventual auction or other disposition of the related vehicles.

Finance receivables include floorplan receivables created by financing dealer purchases of vehicles in exchange for a security interest in those vehicles and special purpose loans. Floorplan receivables become due at the earlier of the dealer subsequently selling the vehicle or a predetermined time period (generally 30 to 60 days). Special purpose loans relate to loans that are either line of credit loans or working capital loans that can be either secured or unsecured based on the facts and circumstances of the specific loans.

Due to the nature of our business, substantially all trade and finance receivables are due from vehicle dealers, salvage buyers, institutional sellers and insurance companies. We have possession of vehicles or vehicle titles collateralizing a significant portion of the trade and finance receivables.

Trade receivables and finance receivables are reported net of an allowance for doubtful accounts and credit losses. The allowances for doubtful accounts and credit losses are based on management's evaluation of the receivables portfolio under current conditions, the volume of the portfolio, overall portfolio credit quality, review of specific collection issues and such other factors which in management's judgment deserve recognition in estimating losses.

Note 2—Summary of Significant Accounting Policies (Continued)

Other Current Assets

Other current assets consist of inventories, prepaid expenses, taxes receivable and notes receivable. The inventories, which consist of vehicles, supplies and parts, are accounted for on the specific identification method and are stated at the lower of cost or net realizable value.

Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. ASC 350, *Intangibles—Goodwill and Other*, permits an entity to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment model. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The quantitative assessment for goodwill impairment is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Customer Relationships and Other Intangible Assets

Customer relationships are amortized on a straight-line basis over the life determined in the valuation of the particular acquisition. Other intangible assets generally consist of tradenames, computer software and non-compete agreements, which if amortized, are amortized using the straight-line method. Tradenames with indefinite lives are not amortized and tradenames that have been assigned a useful life are amortized over their estimated useful lives. Costs incurred related to software developed or obtained for internal use are capitalized during the application development stage of software development and amortized over their estimated useful lives. The non-compete agreements are amortized over the life of the agreements. The lives of other intangible assets are re-evaluated periodically when facts and circumstances indicate that revised estimates of useful lives may be warranted.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method at rates intended to depreciate the costs of assets over their estimated useful lives. Upon retirement or sale of property and equipment, the cost of the disposed

Note 2—Summary of Significant Accounting Policies (Continued)

assets and related accumulated depreciation is removed from the accounts and any resulting gain or loss is credited or charged to selling, general and administrative expenses. Expenditures for normal repairs and maintenance are charged to expense as incurred. Additions and expenditures for improving or rebuilding existing assets that extend the useful life are capitalized. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the shorter of their economic lives or the lease term including any renewals that are reasonably assured.

Unamortized Debt Issuance Costs

Debt issuance costs reflect the expenditures incurred in conjunction with Term Loan B, the floating senior notes, the bank credit facility and the U.S. and Canadian receivables purchase agreements. The debt issuance costs are being amortized to interest expense using the effective interest method over the lives of the related debt issues.

Other Assets

Other assets consist of below market leases, deposits and other long-term assets.

Long-Lived Assets

Management reviews our property and equipment, customer relationships and other intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The determination includes evaluation of factors such as current market value, future asset utilization, business climate, and future cash flows expected to result from the use of the related assets. If the carrying amount of a long-lived asset exceeds the total amount of the estimated undiscounted future cash flows from that asset, a loss is recognized in the period to the extent that the carrying amount exceeds the fair value of the asset. The impairment analysis is based on our current business strategy, expected growth rates and estimated future economic and regulatory conditions.

Accounts Payable

Accounts payable include amounts due sellers from the proceeds of the sale of their consigned vehicles less any fees, as well as outstanding checks to sellers and vendors. Book overdrafts, representing outstanding checks in excess of funds on deposit, are recorded in "Accounts payable" and amounted to $112.4 million and $136.5 million at December 31, 2012 and 2011, respectively.

Environmental Liabilities

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties.

Note 2—Summary of Significant Accounting Policies (Continued)

Revenue Recognition

ADESA Auction Services

Revenues and the related costs are recognized when the services are performed. Auction fees from sellers and buyers are recognized upon the sale of the vehicle through the auction process. Most of the vehicles that are sold through auctions are consigned to ADESA by the seller and held at ADESA's facilities or third party locations. ADESA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. ADESA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Instead, ADESA records only its auction fees as revenue because it does not take title to the consigned vehicles, has no influence on the vehicle auction selling price agreed to by the seller and buyer at the auction and the fees that ADESA receives for its services are generally a fixed amount. Revenues from reconditioning, logistics, vehicle inspection and certification, titling, evaluation and salvage recovery services are generally recognized when the services are performed.

IAA Salvage Services

Revenues (including vehicle sales and fee income) are generally recognized at the date the vehicles are sold at auction. Revenue not recognized at the date the vehicles are sold at auction includes annual buyer registration fees, which are recognized on a straight-line basis, and certain buyer-related fees, which are recognized when payment is received.

AFC

AFC's revenue is comprised of interest and fee income, provision for credit losses and other revenues associated with our finance receivables. The following table summarizes the primary components of AFC's revenue:

AFC Revenue (In millions)	Year Ended December 31, 2012	2011	2010
Interest and fee income	**$190.3**	$163.7	$137.9
Other revenue	**10.7**	11.2	9.6
Provision for credit losses	**(7.2)**	(6.1)	(11.2)
	$193.8	$168.8	$136.3

Interest and fee income

Interest on finance receivables is recognized based on the number of days the vehicle remains financed. AFC ceases recognition of interest on finance receivables when the loans become delinquent, which is generally 31 days past due. Dealers are also charged a fee to floorplan a vehicle ("floorplan fee") and extend the terms of the receivable ("curtailment fee"). AFC fee income including floorplan and curtailment fees is recognized over the life of the finance receivable.

Note 2—Summary of Significant Accounting Policies (Continued)

Other revenue

Other revenue includes lot check fees, filing fees and postage fees, each of which are charged to and collected from AFC's customers.

Loan origination costs

Loan origination costs incurred by AFC in originating floorplan receivables are capitalized at the origination of the customer contract. Such costs for receivables retained are amortized over the estimated life of the customer contract.

Income Taxes

We file federal, state and foreign income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with ASC 740, *Income Taxes*. The provision for income taxes includes federal, foreign, state and local income taxes currently payable, as well as deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable amounts in years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

In accordance with ASC 740, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average common shares outstanding during the year. Diluted net income per share represents net income divided by the sum of the weighted average common shares outstanding plus potential dilutive instruments such as stock options. The effect of stock options on net income per share-diluted is determined through the application of the treasury stock method, whereby net proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per share are excluded from the calculations.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under ASC 718, *Compensation—Stock Compensation*. We recognize all stock-based compensation as expense in the financial statements and that cost is measured as the fair value of the award at the grant date for equity-classified awards, while liability-classified awards are remeasured each reporting period at fair value. We also consider estimated forfeitures in determining compensation expense. Additionally, in accordance with ASC 718,

Note 2—Summary of Significant Accounting Policies (Continued)

cash flows resulting from tax deductions from the exercise of stock options in excess of recognized compensation cost (excess tax benefits) are classified as financing cash flows.

Note 3—Acquisitions

Some of our acquisitions from prior years include contingent payments related to revenues or unit volumes of certain vehicles sold subsequent to the purchase dates. We made payments for contingent consideration and deferred acquisition costs in 2012, 2011 and 2010 totaling approximately $5.6 million, $3.9 million and $2.0 million, respectively, of which approximately $0.1 million, $1.8 million and $2.0 million resulted in additional goodwill for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, in 2012 and 2011, we recorded and reversed contingent consideration of approximately $1.1 million and $4.6 million, respectively, related to certain prior year acquisitions based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would or would not be met. The contingent consideration adjustments were recorded to "Other (income) expense, net" in the consolidated statements of income.

2011 Acquisitions

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

As a result of the merger and pursuant to the terms of the Merger Agreement, each outstanding share of OPENLANE common stock and preferred stock (other than those shares of common stock or preferred stock held by OPENLANE) was converted into the right to receive an amount in cash as set forth in the Merger Agreement. The value of the cash consideration payable in the merger was $208.4 million plus approximately $35 million for excess cash on OPENLANE's balance sheet at the closing of the merger. We funded the cash consideration paid at closing with a combination of approximately $98.4 million of existing cash on-hand and borrowings of approximately $145 million from our revolving credit facility. We utilized approximately $35 million of acquired cash to immediately repay a portion of the borrowings on the revolving credit facility. In addition, we entered into operating lease obligations related to various facilities through 2017. Initial annual lease payments for the various facilities were approximately $1.6 million per year. Financial results for the acquisition have been included in our consolidated financial statements from the date of acquisition.

During 2011, we also completed the acquisitions of a company that auctions heavy machinery, a company that develops satellite-based GPS technology for advanced vehicle tracking and a salvage facility. The purchase agreements included contingent payments related to financial results and business deployments subsequent to the purchase date. The purchased assets included fixed assets, software, inventory, accounts receivable and other intangible assets. Financial results for each acquisition have been included in our consolidated financial statements from the date of acquisition.

Note 3—Acquisitions (Continued)

The aggregate purchase price for the businesses acquired in 2011, net of cash, was approximately $214.0 million, which included estimated contingent payments with a present value of $0.4 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $0.4 million. The acquired assets and liabilities were recorded based upon fair values, including $94.7 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames, software and noncompete agreements, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $123.6 million. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's statement of income.

2010 Acquisitions

During the fourth quarter of 2010 the Company completed the acquisition of six used vehicle auctions, two processors of charity donation vehicles which are primarily sold through salvage operations, a loan servicing company focused on servicing loans made by automobile lenders and a company focused on remarketing repossessed vehicles for credit unions. The various purchase agreements included contingent payments related to revenues or unit volumes subsequent to the purchase dates. The purchased assets included land, buildings, accounts receivable, operating equipment, customer relationships and other intangible assets. In addition, we entered into operating lease obligations related to certain facilities with initial annual lease payments aggregating approximately $0.8 million. Financial results for each acquisition have been included in our consolidated financial statements from the date of acquisition.

The aggregate purchase price for the businesses acquired in 2010 was approximately $59.4 million, which included estimated contingent payments with a present value of $10.7 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $11.1 million. The acquired assets and liabilities were recorded based upon fair values, including $27.9 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames and noncompete agreements which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $26.2 million. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's balance sheet and statement of income.

Note 4—Stock-Based Compensation Plans

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

The compensation cost that was charged against income for all stock-based compensation plans was $23.2 million, $17.0 million and $19.8 million for the years ended December 31, 2012, 2011 and 2010, respectively, and the total income tax benefit recognized in the consolidated statement of income for options was approximately $3.6 million, $6.1 million and $6.6 million for the years ended

Note 4—Stock-Based Compensation Plans (Continued)

December 31, 2012, 2011 and 2010, respectively. There is no income tax benefit recognized by us with respect to the KAR LLC and Axle LLC profit interests. We did not capitalize any stock-based compensation cost in the years ended December 31, 2012, 2011 or 2010. The following table summarizes our stock-based compensation expense by type of award *(in millions)*:

	Year Ended December 31,		
	2012	**2011**	**2010**
Service options	**$ 2.3**	$ 1.2	$ 0.3
Exit options	**8.0**	15.9	18.0
KAR LLC profit interests	**6.9**	0.3	1.6
Axle LLC profit interests	**6.0**	(0.4)	(0.1)
Total	**$23.2**	$17.0	$19.8

Axle Holdings, Inc. Stock Incentive Plan

Prior to the merger transactions, IAA was a subsidiary of Axle Holdings, Inc. ("Axle Holdings"), which in turn was a subsidiary of Axle LLC. Axle Holdings maintained the Axle Holdings, Inc. Stock Incentive Plan to provide equity incentive benefits to the IAA employees. Under the Axle Holdings plan, service options and exit options were awarded. The service options vested in three equal annual installments from the grant date based upon service with Axle Holdings and its subsidiaries. The exit options vested upon a change in equity control of Axle LLC. In connection with the completion of the merger transactions, the options (service and exit) to purchase shares of Axle Holdings, Inc. stock were converted into options (service and exit) to purchase shares of KAR Auction Services; these converted options have the same terms and conditions as were applicable to the options to purchase shares of Axle Holdings, Inc. The converted options are included in the KAR Auction Services, Inc. service option table and exit option table below.

On December 10, 2009, in conjunction with the initial public offering, all outstanding service options became fully vested and exercisable. In addition, the vesting criteria and exercisability of the exit options were modified. Our board amended the terms of all exit options to substitute the existing criteria governing the exercisability of the exit options with criteria governing exercisability based on the price per share of our common stock. Accordingly, rather than vest upon the achievement of certain

Note 4—Stock-Based Compensation Plans (Continued)

specified performance goals at the time of an exit event, the exit options originally granted under the Axle Holdings, Inc. Stock Incentive Plan vest as follows:

Amount Vested	Conditions to Vesting
25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $16.01*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $19.21*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $22.41*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $25.62*

* Additional conditions to vesting: (ii) the price of the Company's common stock on the last trading day of a 90 consecutive trading day period must be greater than or equal to 85% of $16.01, $19.21, $22.41 or $25.62, respectively; and (iii) the option holder is a director, officer, employee, consultant or agent of the Company or any of its subsidiaries on the date on which the conditions set forth in (i) and (ii) above are satisfied.

For purposes of determining the conditions to vesting, the "fair market value" of any share of Company common stock, on any date of determination, shall be the average for 90 consecutive trading days prior to such date of determination of the last sales price for a share of Company common stock on the principal securities exchange on which the Company common stock is then listed.

In May 2011, the vesting criteria for the first 25% of the exit options was met and as such 25% of the outstanding exit options became exercisable. In January 2013, the vesting criteria for the second 25% of the exit options was met and as such an additional 25% of the outstanding exit options became exercisable.

Axle LLC Profit Interests

Axle LLC also maintained two types of profit interests, operating units and value units, which are held by certain designated employees of IAA. Upon an exit event as defined by the Axle LLC operating agreement, holders of the profit interests will receive a cash distribution from Axle LLC. The service requirement for the operating units was fulfilled during 2008 and as such the operating units are fully vested. The value units vest upon a change in equity control of Axle LLC. The number of value units eligible for distribution will be determined based on the strike price and certain performance hurdles based on the Equity Sponsors and other investors' achievement of certain multiples on their original indirect equity investment in Axle Holdings subject to a minimum internal rate of return at the time of distribution. A total of 191,152 operating units and 382,304 value units are maintained by Axle LLC and there were no changes to the terms and conditions of the units as a result of the merger transactions.

Note 4—Stock-Based Compensation Plans (Continued)

The operating units are accounted for as liability awards and as such, compensation expense related to the operating units is recognized using the graded-vesting attribution method. Compensation expense related to the Axle LLC operating units was $6.0 million for the year ended December 31, 2012. For the years ended December 31, 2011 and 2010, $0.4 million and $0.1 million, respectively, of compensation expense for the Axle LLC operating units was reversed as the fair value of the operating units declined.

The Company has not recorded compensation expense related to the value units and none will be recognized on the value units until it becomes probable that an exit event (specifically, a change in control) will occur.

KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan

We adopted the KAR Auction Services, Inc. 2009 Omnibus and Stock Incentive Plan (“Omnibus Plan”) in December 2009. The Omnibus Plan is intended to provide equity or cash based awards to our employees. The maximum number of shares that may be issued pursuant to awards under the Omnibus Plan is approximately 6.5 million. The Omnibus Plan provides for the grant of options, restricted stock, stock appreciation rights, other stock-based awards and cash based awards.

In 2012, we granted approximately 0.7 million service options with a weighted average exercise price of $16.18 per share under the Omnibus Plan, and in 2011 we granted approximately 1.3 million service options with a weighted average exercise price of $15.05 per share. In addition, in 2010 we granted approximately 0.5 million service options with a weighted average exercise price of $12.90 per share and approximately 0.7 million exit options with an exercise price per share of $13.46 under the Omnibus Plan. The service and exit options have a ten year life and the service options vest in four equal annual installments, commencing on the first anniversary of the respective grant dates. The exit options contain the same vesting criteria as the exit options noted below under the KAR Auctions Services, Inc. Stock Incentive Plan.

KAR Auction Services, Inc. Stock Incentive Plan

The Company adopted the KAR Auction Services, Inc. Stock Incentive Plan (“the Plan”) in May 2007. The Plan was intended to provide equity incentive benefits to the Company’s employees. The maximum number of shares that were to be issued pursuant to awards under the Plan was approximately 7.9 million. The Plan provided for the grant of incentive stock options and non-qualified stock options and restricted stock. Awards granted since the adoption of the Plan were non-qualified stock options, and no further grants will be awarded under the Plan.

The Plan provided two types of stock options: service-related options, which were to vest ratably in four annual installments from the date of grant based upon the passage of time, and performance-related “exit” options, which were generally to become exercisable upon a change in equity control of KAR LLC. Under the exit options, in addition to the change in equity control requirement, the number of options that vest were to be determined based on the strike price and certain performance hurdles based on the Equity Sponsors and other investors’ achievement of certain multiples on their original indirect equity investment in KAR Auction Services subject to a minimum internal rate of return at the time of change in equity control. All vesting criteria was subject to continued employment with

Note 4—Stock-Based Compensation Plans (Continued)

KAR LLC or affiliates thereof. Options were to be granted under the Plan at an exercise price of not less than the fair market value of a share of KAR Auction Services common stock on the date of grant and have a contractual life of ten years. In the event of a change in control, any unvested options were to become fully vested and cashed out.

On December 10, 2009, in conjunction with the initial public offering, all outstanding service options became fully vested and exercisable. In addition, the vesting criteria and exercisability of the exit options was modified. The board amended the terms of all exit options to substitute the existing criteria governing the exercisability of the exit options with criteria governing exercisability based on the price per share of our common stock. Accordingly, rather than vest upon the achievement of certain specified performance goals at the time of an exit event, the exit options granted under the KAR Auction Services, Inc. Stock Incentive Plan vest as follows:

Amount Vested	Conditions to Vesting
25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $20.00*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $25.00*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $30.00*
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $35.00*

* Additional conditions to vesting: (ii) the price of the Company's common stock on the last trading day of a 90 consecutive trading day period must be greater than or equal to 85% of $20.00, $25.00, $30.00 or $35.00, respectively; and (iii) the option holder is a director, officer, employee, consultant or agent of the Company or any of its subsidiaries on the date on which the conditions set forth in (i) and (ii) above are satisfied.

For purposes of determining the conditions to vesting, the "fair market value" of any share of Company common stock, on any date of determination, shall be the average for 90 consecutive trading days prior to such date of determination of the last sales price for a share of Company common stock on the principal securities exchange on which the Company common stock is then listed.

Note 4—Stock-Based Compensation Plans (Continued)

The following table summarizes service option activity under the Omnibus Plan and the Plan for the year ended December 31, 2012:

Service Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2012	3,257,593	$12.17		
Granted	703,160	16.18		
Exercised	(348,986)	8.12		
Forfeited	(182,836)	14.25		
Cancelled	(8,467)	13.97		
Outstanding at December 31, 2012	3,420,464	$13.31	7.2 years	$23.7
Exercisable at December 31, 2012	1,673,231	$11.28	5.6 years	$15.0

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2012. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of $20.24 on December 31, 2012. The total intrinsic value of service options exercised during the year ended December 31, 2012 was $3.4 million. The fair value of all vested and exercisable service options at December 31, 2012, 2011 and 2010 was $33.9 million, $22.0 million and $30.9 million, respectively.

We recognized compensation expense for the service options of approximately $2.3 million, $1.2 million and $0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, there was approximately $6.8 million of unrecognized compensation expense related to nonvested service options which is expected to be recognized over a weighted average term of 2.7 years.

Service options have been accounted for as equity awards and, as such, compensation expense was measured based on the fair value of the award at the date of grant and recognized over the four year service period, using the straight-line attribution method. The weighted average fair value of the service options granted was $4.94 per share, $4.69 per share and $4.07 per share for the years ended December 31, 2012, 2011 and 2010, respectively. The fair value of service options granted was estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

Assumptions	2012	2011	2010
Risk-free interest rate	**0.555% - 0.65%**	0.625% - 1.69%	0.805% - 1.81%
Expected life	**4 years**	4 years	4 years
Expected volatility	**38.0%**	38.0%	38.0%
Dividend yield	**0%**	0%	0%

Note 4—Stock-Based Compensation Plans (Continued)

Risk-free interest rate—This is the yield on U.S. Treasury Securities posted at the date of grant (or date of modification) having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected life—years—This is the period of time over which the options granted are expected to remain outstanding. Options granted by KAR Auction Services have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Expected volatility—Actual changes in the market value of stock are used to calculate the volatility assumption. Based on the Company's limited time as a publicly traded company, the expected volatility used was determined based on a combination of historical volatility, the volatility of selected comparable companies and other relevant factors. An increase in the expected volatility will increase compensation expense.

Dividend yield—This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense.

The following table summarizes exit option activity under the Omnibus Plan and the Plan for the year ended December 31, 2012:

Exit Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2012	6,303,386	$10.49		
Granted	0	N/A		
Exercised	(22,003)	6.59		
Forfeited	(98,312)	10.48		
Cancelled	0	N/A		
Outstanding at December 31, 2012	6,183,071	$10.52	5.0 years	$60.1
Exercisable at December 31, 2012	94,711	$ 6.67	2.9 years	$ 1.3

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2012. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of $20.24 on December 31, 2012. The total intrinsic value of exit options exercised during the year ended December 31, 2012 was $0.2 million. The fair value of all vested and exercisable exit options at December 31, 2012 was $1.9 million.

The requisite service period and the fair value of the exit options granted in 2010 and at the date of the modification were developed in consultation with independent valuation specialists. The weighted average fair value of exit options granted in 2010 was $7.89 per share. The time horizons over which our stock price is projected to achieve the market conditions noted in the above tables ranges from 1.2 years to 3.9 years. As a result, compensation expense will be recognized over the derived service periods ranging from 1.2 years to 3.9 years. We recognized compensation expense for these exit options of approximately $8.0 million, $15.9 million and $18.0 million for the years ended December 31, 2012,

Note 4—Stock-Based Compensation Plans (Continued)

2011 and 2010, respectively. As of December 31, 2012, there was approximately $2.1 million of total unrecognized compensation expense related to the nonvested exit options which is expected to be recognized over a weighted average term of 0.7 years.

KAR LLC Profit Interests

Prior to December 10, 2009, KAR LLC owned 100% of the outstanding shares of KAR Auction Services. The KAR LLC operating agreement provides for profit interests in KAR LLC to be granted and held by certain designated employees of the Company. Upon an exit event as defined by the KAR LLC operating agreement, and at any other time determined by the board, holders of the profit interests will receive a cash distribution from KAR LLC.

Two types of profit interests were created by the KAR LLC operating agreement: (1) operating units, which vest in four equal installments commencing on the first anniversary of the grant date based upon service, and (2) value units, which are eligible for distributions upon attaining certain performance hurdles. The service requirement for the operating units was fulfilled during 2011 and as such the operating units are fully vested. The number of value units eligible for distributions will be determined based on the strike price and certain performance hurdles based on the Equity Sponsors and other investors' achievement of certain multiples on their original indirect equity investment in KAR Auction Services subject to an internal rate of return minimum at the time of distribution.

A total of 121,046 operating units and 363,139 value units are maintained by KAR LLC and there have been no changes to the number outstanding since the profit interests were awarded in June 2007. The grant date fair value of the operating units and value units was $36.90 and $45.21, respectively. The fair value of each operating unit was estimated on the date of grant using the Black-Scholes option pricing model. The fair value of each value unit was estimated on the date of grant using a lattice-based valuation model.

The compensation expense of KAR LLC, which is for the benefit of Company employees, will result in a capital contribution from KAR LLC to the Company and compensation expense for the Company. Compensation expense related to the operating units is recognized using the straight-line attribution method and resulted in $6.9 million, $0.3 million and $1.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company has not recorded compensation expense related to the value units and none will be recognized until it becomes probable that the performance conditions associated with the value units will be achieved.

KAR Auction Services, Inc. Employee Stock Purchase Plan

Our board of directors and stockholders adopted the KAR Auction Services, Inc. Employee Stock Purchase Plan ("ESPP") in December 2009 and the ESPP was implemented in the second quarter of 2010. A maximum of 1,000,000 shares of our common stock have been reserved for issuance under the ESPP and at December 31, 2012, 822,182 shares remain available for purchase under the ESPP. The ESPP provides for one month offering periods with a 15% discount from the fair market value of a share on the date of purchase. In accordance with ASC 718, *Compensation—Stock Compensation*, the

Note 4—Stock-Based Compensation Plans (Continued)

entire 15% purchase discount is recorded as compensation expense. A participant's combined payroll deductions and cash payments in the ESPP may not exceed $25,000 per year.

Note 5—Net Income Per Share

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	**$ 92.0**	$ 72.2	$ 69.6
Weighted average common shares outstanding	**136.5**	136.0	134.9
Effect of dilutive stock options	**2.5**	1.8	1.0
Weighted average common shares outstanding and potential common shares	**139.0**	137.8	135.9
Net income per share			
Basic	**$ 0.67**	$ 0.53	$ 0.52
Diluted	**$ 0.66**	$ 0.52	$ 0.51

Basic net income per share was calculated by dividing net income by the weighted-average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options on net income per share—diluted is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share are excluded from the calculations. Approximately 0.4 million, 0.9 million and 0.6 million options were excluded from the calculation of diluted net income per share for the years ended December 31, 2012, 2011 and 2010, respectively. Total options outstanding at December 31, 2012, 2011 and 2010 were 9.6 million, 9.6 million and 9.2 million, respectively.

Note 6—Allowance for Credit Losses and Doubtful Accounts

The following is a summary of the changes in the allowance for credit losses related to finance receivables (*in millions*):

	Year Ended December 31,		
	2012	2011	2010
Allowance for Credit Losses			
Balance at beginning of period	**$ 9.0**	$ 9.7	$ 5.9
Provision for credit losses	**7.2**	6.1	11.2
Recoveries	**3.4**	4.5	4.0
Less charge-offs	**(11.6)**	(11.3)	(11.4)
Balance at end of period	**$ 8.0**	$ 9.0	$ 9.7

AFC's allowance for credit losses includes estimated losses for finance receivables currently held on the balance sheet of AFC and its subsidiaries.

The following is a summary of changes in the allowance for doubtful accounts related to trade receivables (*in millions*):

	Year Ended December 31,		
	2012	2011	2010
Allowance for Doubtful Accounts			
Balance at beginning of period	**$ 6.4**	$ 6.3	$ 6.9
Provision for credit losses	**2.3**	2.2	2.6
Less net charge-offs	**(3.4)**	(2.1)	(3.2)
Balance at end of period	**$ 5.3**	$ 6.4	$ 6.3

Recoveries of trade receivables were netted with charge-offs, as they were not material. Changes in the Canadian exchange rate did not have a material effect on the allowance for doubtful accounts.

Note 7—Finance Receivables and Obligations Collateralized by Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of undivided interests in certain eligible finance receivables subject to committed liquidity. The agreement expires on June 30, 2014. AFC Funding Corporation had committed liquidity of $650 million for U.S. finance receivables at December 31, 2012.

We also have an agreement for the securitization of Automotive Finance Canada, Inc.'s ("AFCI") receivables. This securitization facility expires on June 30, 2014. AFCI's committed liquidity is provided through a third party conduit (separate from the U.S. conduit) and was C$100 million at December 31, 2012. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

Note 7—Finance Receivables and Obligations Collateralized by Finance Receivables (Continued)

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

	December 31, 2012		
	Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net Credit Losses During 2012
Floorplan receivables	**$ 996.2**	**$3.8**	**$8.0**
Special purpose loans	**8.0**	**0**	**0.2**
Total receivables managed	**$1,004.2**	**$3.8**	**$8.2**

	December 31, 2011		
	Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net Credit Losses During 2011
Floorplan receivables	$877.6	$3.3	$6.8
Special purpose loans	5.6	0.3	0
Total receivables managed	$883.2	$3.6	$6.8

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

As of December 31, 2012 and 2011, $996.0 million and $877.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $713.3 million and $610.3 million of obligations collateralized by finance receivables at December 31, 2012 and 2011, respectively.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2012, we were in compliance with the covenants in the securitization agreements.

Note 8—Goodwill and Other Intangible Assets

Goodwill consisted of the following (*in millions*):

	ADESA Auctions	IAA	AFC	Total
Balance at December 31, 2010	$835.6	$521.6	$196.9	$1,554.1
Increase for acquisition activity	123.6	1.8	0	125.4
Balance at December 31, 2011	$959.2	$523.4	$196.9	$1,679.5
Increase for acquisition activity	0	0.1	0	0.1
Balance at December 31, 2012	**$959.2**	**$523.5**	**$196.9**	**$1,679.6**

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. At December 31, 2011, there was $1,679.5 million of goodwill recorded on our consolidated balance sheet that was recorded as a result of the merger transactions, post merger acquisitions and contingent consideration related to prior year acquisitions. Goodwill increased in 2011 primarily as a result of acquisitions and contingent consideration related to prior year acquisitions. Most of the goodwill resulting from the businesses acquired in 2011 is not expected to be deductible for tax purposes.

A summary of customer relationships is as follows (*in millions*):

		December 31, 2012			December 31, 2011		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	9 - 19	**$1,024.2**	**$(405.3)**	**$618.9**	$1,019.8	$(325.8)	$694.0

The decrease in customer relationships in 2012 was primarily related to the amortization of existing customer relationships, partially offset by changes in the Canadian exchange rate.

A summary of other intangibles is as follows (*in millions*):

		December 31, 2012			December 31, 2011		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Tradenames	2 - Indefinite	**$197.1**	**$ (1.8)**	**$195.3**	$197.1	$ (1.1)	$196.0
Computer software & technology	3 - 7	**251.5**	**(144.0)**	**107.5**	223.9	(120.2)	103.7
Covenants not to compete	1 - 5	**25.5**	**(23.1)**	**2.4**	24.4	(18.2)	6.2
Total		**$474.1**	**$(168.9)**	**$305.2**	$445.4	$(139.5)	$305.9

Other intangibles decreased in 2012 primarily as a result of the amortization of existing intangibles, partially offset by computer software additions.

Note 8—Goodwill and Other Intangible Assets (Continued)

We have acquired software by undertaking capital lease obligations. The software under the capital leases is amortized in a manner consistent with our policy for owned intangibles. The assets included above that are held under capital leases are summarized below (*in millions*):

Classes of Property	December 31, 2012	December 31, 2011
Computer software	**$ 2.7**	$ 2.7
Accumulated amortization	**(1.4)**	(0.5)
Capital lease assets	**$ 1.3**	$ 2.2

Amortization expense for customer relationships and other intangibles was $117.8 million, $108.1 million and $100.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Estimated amortization expense for the next five years is $119.2 million for 2013, $107.5 million for 2014, $98.9 million for 2015, $82.1 million for 2016 and $80.4 million for 2017.

Note 9—Property and Equipment

Property and equipment consisted of the following (*in millions*):

	Useful Lives (in years)	December 31, 2012	December 31, 2011
Land		**$ 257.9**	$ 260.7
Buildings	5 - 40	**232.1**	224.8
Land improvements	5 - 20	**141.7**	130.4
Building and leasehold improvements	3 - 33	**231.7**	193.1
Furniture, fixtures and equipment	1 - 10	**231.8**	199.8
Vehicles	3 - 6	**6.3**	6.8
Construction in progress		**14.7**	33.5
		1,116.2	1,049.1
Accumulated depreciation		**(415.5)**	(362.4)
Property and equipment, net		**$ 700.7**	$ 686.7

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was $72.4 million, $71.7 million and $71.0 million, respectively.

We have acquired furniture, fixtures and equipment by undertaking capital lease obligations. Assets held under the capital leases are depreciated in a manner consistent with our depreciation policy for

Note 9—Property and Equipment (Continued)

owned assets. The assets included above that are held under capital leases are summarized below (*in millions*):

Classes of Property	December 31, 2012	December 31, 2011
Furniture, fixtures and equipment	**$ 53.1**	$ 38.0
Accumulated depreciation	**(23.6)**	(13.4)
Capital lease assets	**$ 29.5**	$ 24.6

Note 10—Self Insurance and Retained Loss Reserves

We self-insure our employee medical benefits, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. We also have insurance coverage that limits the total exposure to overall automobile, general liability and workers' compensation claims. The cost of the insurance is expensed over the contract periods. 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. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."

The following is a summary of the changes in the reserves for self-insurance and the retained losses (*in millions)*:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Balance at beginning of period	**$ 24.0**	$ 27.1
Net payments	**(51.0)**	(49.2)
Expense	**51.0**	46.1
Balance at end of period	**$ 24.0**	$ 24.0

Individual stop-loss coverage for medical benefits was $0.3 million for 2012 and 2011. There was no aggregate policy limit for medical benefits for the Company in either year. The retention for automobile, general liability and workers' compensation claims was $0.5 million per occurrence with a $1.0 million corridor deductible in both the 2012 and 2011 policy years. Once the $1.0 million corridor deductible is met, the deductible reverts back to $0.5 million per occurrence. The aggregate policy limits for the combined automobile, general liability and workers' compensation program was $20.0 million for both the 2012 and 2011 policy years.

Note 11—Long-Term Debt

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

	Interest Rate	Maturity	December 31, 2012	December 31, 2011
Term Loan B	Adjusted LIBOR + 3.75%	May 18, 2017	**$1,674.5**	$1,691.5
$250 million revolving credit facility	Adjusted LIBOR + 3.50%	May 18, 2016	**0**	68.9
Floating rate senior notes	LIBOR + 4.00%	May 01, 2014	**150.0**	150.0
Canadian line of credit	CAD Prime + 1.5%	Repayable upon demand	**0**	0
Total debt			**1,824.5**	1,910.4
Unamortized debt discount			**(6.2)**	(7.6)
Current portion of long-term debt			**(43.7)**	(85.9)
Long-term debt			**$1,774.6**	$1,816.9

The weighted average interest rate on our variable rate debt was 4.9% at December 31, 2012 and 2011.

Credit Facilities

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

On November 29, 2012, we entered into an amendment to the Credit Agreement. The amendment provided for, among other things, modifications to the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) financial covenant and modifications to increase the amount of Restricted Payments (as defined in the Credit Agreement) permitted to be paid under the Credit Agreement. Restricted payments include, among other things, dividends, stock buybacks and other payments made in respect of the Company's equity securities.

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

Note 11—Long-Term Debt (Continued)

Term Loan B was issued at a discount of $8.5 million. The discount is being amortized to interest expense over the six-year term of the loan. Term Loan B is payable in quarterly installments equal to 0.25% of the original aggregate principal amount. Payments commenced on September 30, 2011, and the balance is payable at maturity. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to (i) the net proceeds of certain debt offerings, asset sales and certain insurance recovery events; and (ii) for any fiscal year ending on or after December 31, 2011, any Excess Cash Flow, as defined in the Credit Agreement, on or before the 105th day following the end of the fiscal year. There were no excess cash flow payments, as defined, due for the year ended December 31, 2011. For the year ended December 31, 2012, the Company has estimated that an excess cash flow payment of approximately $39.4 million will be made in the second quarter of 2013. The prepayment will be credited to prepay in order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of Term Loan B, and thereafter to the remaining scheduled quarterly installments of Term Loan B on a pro rata basis. As such, after the March 31, 2013 quarterly installment on Term Loan B and the excess cash flow payment, there will be no further quarterly installments due until June 30, 2015.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and perfected first-priority security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first-tier foreign subsidiaries and (b) perfected first-priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions. The Credit Agreement contains affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with our affiliates. The Credit Agreement also requires us to maintain a maximum leverage ratio, provided there are revolving loans outstanding. We were in compliance with the covenants in the Credit Agreement at December 31, 2012.

Term Loan B bears interest at an adjusted LIBOR rate plus 3.75% (with an adjusted LIBOR rate floor of 1.25% per annum) and revolving loan borrowings at an adjusted LIBOR rate plus 3.50%; however, for specified types of borrowings, the Company may elect to make term loan borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.75% and revolving loan borrowings at a Base Rate plus 2.50%. The rate on Term Loan B was 5.0% at December 31, 2012. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate will step down by 25 basis points. The Company also pays a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of the credit facility. The fee may step down to 37.5 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

There were no borrowings on the revolving credit facility at December 31, 2012. On December 31, 2011, $68.9 million was outstanding on the revolving credit facility. In addition, we had related

Note 11—Long-Term Debt (Continued)

outstanding letters of credit in the aggregate amount of $23.6 million and $28.5 million at December 31, 2012 and 2011, respectively, which reduce the amount available for borrowings under the credit facility.

Senior Notes

In 2007 we issued $450.0 million of 8¾% senior notes and $150.0 million of floating rate senior notes, both of which were due May 1, 2014. In addition, we issued $425.0 million of 10% senior subordinated notes due May 1, 2015. The floating rate notes were non-callable for two years, after which they became callable at a premium declining ratably to par at the end of year four. Interest on the floating rate notes is payable quarterly in arrears and commenced on August 1, 2007.

In June 2011, we prepaid $450.0 million principal amount of the 8¾% senior notes and the remaining $131.1 million principal balance of the 10% senior subordinated notes with proceeds received from Term Loan B and cash on hand. We incurred a loss on the extinguishment of the notes of $29.0 million in the second quarter of 2011 representative of the net premiums payable related to the repurchase of the notes and the write-off of certain unamortized debt issuance costs.

The remaining $150.0 million floating rate senior notes contain covenants that among other things, limit the issuance of additional indebtedness, the incurrence of liens, the repurchase of stock, making certain investments, the payment of dividends or other distributions, distributions from certain subsidiaries, the sale of assets and subsidiary stock, transactions with affiliates and consolidations, mergers and transfers of assets. All of these limitations and prohibitions, however, are subject to a number of important qualifications set forth in the indenture.

Canadian Line of Credit

ADESA Canada has a C$8 million line of credit. The line of credit bears interest at a rate equal to the Canadian prime rate plus 150 basis points. There were no borrowings under the Canadian line of credit at December 31, 2012 or 2011. There were related letters of credit outstanding totaling approximately C$1.2 million and C$2.2 million at December 31, 2012 and 2011, respectively, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility. The line of credit is guaranteed by certain ADESA Canada companies.

Future Principal Payments

At December 31, 2012, aggregate future principal payments on long-term debt are as follows (*in millions*):

2013	$ 43.7
2014	150.0
2015	12.8
2016	17.0
2017	1,601.0
Thereafter	0
	$1,824.5

Note 12—Financial Instruments

Our derivative activities are initiated within the guidelines of documented corporate risk management policies. We do not enter into any derivative transactions for speculative or trading purposes.

Interest Rate Risk Management

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

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

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

The earnings impact of the interest rate derivatives designated as cash flow hedges is recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in current earnings. There was no significant ineffectiveness in 2012, 2011 or 2010. Unrealized gains or losses on the interest rate derivatives are included as a component of "Accumulated other comprehensive income." At December 31, 2012, there was a net unrealized loss totaling $0.2 million, net of tax benefits of $0.1 million. At December 31, 2011, there was a net unrealized gain totaling $0.1 million, net of tax benefits of less than $0.1 million. The following table

Note 12—Financial Instruments (Continued)

presents the effect of the interest rate derivatives on our statement of equity and consolidated statements of income for the periods presented (*in millions*):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Year Ended December 31,		Location of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Year Ended December 31,	
	2012	**2011**		**2012**	**2011**
Aggregate $925 million notional interest rate caps	**$(0.5)**	$0.1	Interest expense	**$ 0**	$ 0
$650 million notional interest rate swap*	**N/A**	$2.1	Interest expense	**N/A**	$(18.6)
$250 million notional interest rate cap*	**N/A**	$0.3	N/A	**N/A**	$ 0

* In connection with entering into the Credit Facility in May 2011, we de-designated our $650 million notional interest rate swap and entered into a swap termination agreement related to our previous credit agreement. We paid $14.5 million to settle and terminate the swap. As a result, the $14.5 million was reclassified from accumulated other comprehensive income to interest expense. Our $250 million notional interest rate cap, related to our previous credit agreement, matured on June 30, 2011.

Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of interest-bearing investments, finance receivables, trade receivables and interest rate derivatives. We maintain cash and cash equivalents, short-term investments, and certain other financial instruments with various major financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and companies and limit the amount of credit exposure with any one institution. Cash and cash equivalents include interest-bearing investments with maturities of three months or less. Due to the nature of our business, substantially all trade and finance receivables are due from vehicle dealers, salvage buyers, institutional sellers and insurance companies. We have possession of vehicles or vehicle titles collateralizing a significant portion of the trade and finance receivables. The risk associated with this concentration is limited due to the large number of accounts and their geographic dispersion. We monitor the creditworthiness of customers to which we grant credit terms in the normal course of business. In the event of nonperformance by counterparties to financial instruments we are exposed to credit-related losses, but management believes this credit risk is limited by periodically reviewing the creditworthiness of the counterparties to the transactions.

Financial Instruments

The carrying amounts of trade receivables, finance receivables, other current assets, accounts payable, accrued expenses and borrowings under our short-term revolving line of credit facilities approximate fair value because of the short-term nature of those instruments.

The fair value of our notes receivable is determined by calculating the present value of expected future cash receipts associated with these instruments. The discount rate used is equivalent to the

Note 12—Financial Instruments (Continued)

current rate offered to us for notes of similar maturities. As of December 31, 2012, the fair value of our notes receivable approximated the carrying value.

As of December 31, 2012 and 2011, the estimated fair value of our long-term debt amounted to $1,843.5 million and $1,831.0 million, respectively. The estimates of fair value are based on the market prices for our publicly-traded debt as of December 31, 2012 and 2011. The estimates presented on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

Note 13—Leasing Agreements

We lease property, computer equipment and software, automobiles, trucks and trailers, pursuant to operating lease agreements with terms expiring through 2034. Some of the leases contain renewal provisions upon the expiration of the initial lease term, as well as fair market value purchase provisions. In accordance with ASC 840, *Leases*, rental expense is being recognized ratably over the lease period, including those leases containing escalation clauses. The deferred portion of the rent, for the leases containing escalation clauses, is included in "Other liabilities" on the consolidated balance sheet.

We also lease furniture, fixtures and equipment under capital leases. The economic substance of the leases is that we are financing the purchase of furniture, fixtures and equipment through leases and, accordingly, they are recorded as assets and liabilities. The capital lease liabilities are included in "Other accrued expenses" and "Other liabilities" on the consolidated balance sheet. Depreciation expense includes the amortization of assets held under capital leases. Total future minimum lease payments for non-cancellable operating and capital leases with terms in excess of one year (excluding renewal periods) as of December 31, 2012 are as follows (*in millions*):

	Operating Leases	Capital Leases
2013	$ 95.0	$15.5
2014	85.4	12.1
2015	78.3	4.1
2016	71.1	0.4
2017	67.1	0
Thereafter	536.9	0
	$933.8	$32.1
Less: interest portion of capital leases		2.0
Total		$30.1

Total lease expense for the years ended December 31, 2012, 2011 and 2010 was $96.1 million, $90.0 million and $88.0 million, respectively.

Note 14—Income Taxes

The components of our income before income taxes and the provision for income taxes are as follows (*in millions*):

	Year Ended December 31,		
	2012	**2011**	**2010**
Income before income taxes:			
Domestic	**$ 92.4**	$ 26.0	$31.8
Foreign	**59.2**	64.0	65.0
Total	**$151.6**	$ 90.0	$96.8
Income tax expense (benefit):			
Current:			
Federal	**$ 35.2**	$(13.5)	$(0.3)
Foreign	**21.9**	26.4	24.6
State	**6.2**	8.4	5.2
Total current provision	**63.3**	21.3	29.5
Deferred:			
Federal	**0.8**	4.3	7.8
Foreign	**(3.0)**	(4.4)	(4.5)
State	**(1.5)**	(3.4)	(5.6)
Total deferred provision	**(3.7)**	(3.5)	(2.3)
Income tax expense	**$ 59.6**	$ 17.8	$27.2

The provision for income taxes was different from the U.S. federal statutory rate applied to income before taxes, and is reconciled as follows:

	Year Ended December 31,		
	2012	**2011**	**2010**
Statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes, net	**2.5%**	1.2%	2.6%
Reserves for tax exposures	**1.2%**	(18.5)%	(0.7)%
Valuation allowance reversal	**(3.1)%**	0%	(3.9)%
International operations	**0%**	0.5%	(5.1)%
Stock-based compensation	**3.0%**	0%	0.5%
Other, net	**0.7%**	1.6%	(0.3)%
Effective rate	**39.3%**	19.8%	28.1%

During 2012, the effective tax rate benefited from the recognition of previously unrecognized deferred tax assets related to foreign tax credits and state net operating losses. During 2011, the effective rate benefited from the reversal of $18.6 million in tax reserves for uncertain tax positions due to the expiration of certain statute of limitations. During 2010, the effective rate benefited from lower tax rates in state and foreign jurisdictions, the release of tax reserves for uncertain tax positions due to

Note 14—Income Taxes (Continued)

the expiration of certain statute of limitations and the recognition of previously unrecognized deferred tax assets related to state net operating losses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We believe that it is more likely than not that results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

Deferred tax assets (liabilities) are comprised of the following at December 31 (*in millions*):

	2012	2011
Gross deferred tax assets:		
Allowances for trade and finance receivables	**$ 5.1**	$ 5.9
Accruals and liabilities	**34.0**	32.2
Employee benefits and compensation	**36.8**	32.1
Interest rate cap	**0.1**	(0.1)
Net operating loss carryforwards	**39.8**	47.8
Investment basis difference	**1.7**	2.1
Foreign tax credit	**3.4**	2.0
Other	**3.2**	2.7
Total deferred tax assets	**124.1**	124.7
Deferred tax asset valuation allowance	**(12.6)**	(13.2)
Total	**111.5**	111.5
Gross deferred tax liabilities:		
Property and equipment	**(55.1)**	(31.0)
Goodwill and intangible assets	**(337.3)**	(365.8)
Other	**(2.3)**	(1.1)
Total	**(394.7)**	(397.9)
Net deferred tax liabilities	**$(283.2)**	$(286.4)

The gross tax benefit from state and federal net operating loss carryforwards expires as follows (*in millions*):

2013	$ 0.4
2014	0.2
2015	0.8
2016	0.3
2017	0.2
2018 to 2032	37.9
	$39.8

Note 14—Income Taxes (Continued)

Permanently reinvested undistributed earnings of our foreign subsidiaries were approximately $153.7 million at December 31, 2012. Because these amounts have been or will be permanently reinvested in properties and working capital, we have not recorded the deferred taxes associated with these earnings. If the undistributed earnings of foreign subsidiaries were to be remitted, tax expense would need to be recognized at the U.S. statutory rate, net of any applicable foreign tax credits. It is not practical for us to determine the additional tax that would be incurred upon remittance of these earnings.

We made federal income tax payments, net of federal income tax refunds, of $34.6 million, $0.3 million and $5.3 million in 2012, 2011 and 2010, respectively. State and foreign income taxes paid by us, net of refunds, totaled $30.7 million, $36.2 million and $31.0 million in 2012, 2011 and 2010, respectively.

We apply the provisions of ASC 740, *Income Taxes*. ASC 740 clarifies the accounting and reporting for uncertainty in income taxes recognized in an enterprise's financial statements. These provisions prescribe a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns.

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

	December 31,	
	2012	**2011**
Balance at beginning of period	**$17.4**	$ 25.9
Increase in tax positions related to acquisitions	**0**	8.6
Increase in prior year tax positions	**2.1**	1.1
Decrease in prior year tax positions	**(0.1)**	(0.2)
Increase in current year tax positions	**1.0**	1.3
Settlements	**(0.3)**	(0.7)
Lapse in statute of limitations	**(0.9)**	(18.6)
Balance at end of period	**$19.2**	$ 17.4

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $11.2 million and $9.5 million at December 31, 2012 and 2011, respectively.

We record interest and penalties associated with the uncertain tax positions within our provision for income taxes on the income statement. We had reserves totaling $4.6 million and $4.2 million in 2012 and 2011, respectively, associated with interest and penalties, net of tax.

The provision for income taxes involves management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, U.S. and non-U.S. tax authorities periodically review income tax returns filed by us and can raise issues regarding our filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an

Note 14—Income Taxes (Continued)

issue raised by a revenue authority with respect to that return. In the normal course of business we are subject to examination by taxing authorities in the U.S., Canada, Australia and Mexico. In general, the examination of our material tax returns is completed for the years prior to 2006.

Based on the potential outcome of the Company's tax examinations and the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the currently remaining unrecognized tax benefits will change within the next 12 months. The associated net tax impact on the reserve balance is estimated to be in the range of a $0.7 to $2.0 million decrease.

Note 15—Employee Benefit Plans

401(k) Plan

We maintain a defined contribution 401(k) plan that covers substantially all U.S. employees. Participants are generally allowed to make non-forfeitable contributions up to the annual IRS limits. In 2010 and 2011, the Company matched 50 percent of participant contributions up to 4 percent. Effective January 1, 2012, we began to match 100 percent of the amounts contributed by each individual participant up to 4 percent of the participant's compensation. Participants are 100 percent vested in the Company's contributions. For the years ended December 31, 2012, 2011 and 2010 we contributed $7.7 million, $3.4 million and $3.2 million, respectively.

Postretirement Benefits

IAA assumed the obligation for certain health care and death benefits for the retired employees of Underwriters Salvage Company ("USC") in connection with the acquisition of the capital stock of USC in 1994.

We apply the applicable provisions of ASC 715, *Compensation-Retirement Benefits*. The guidance requires employers to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

The net liability recognized in the balance sheet at December 31, 2012 and 2011 was $0.4 million. The amounts recognized as a charge against accumulated other comprehensive income at December 31, 2012 and 2011 were $0.3 million.

Effective January 20, 1994, the date of the USC acquisition, IAA discontinued future participation for active employees. The contribution for 2013 is not expected to exceed $0.1 million.

Note 16—Commitments and Contingencies

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred.

We have accrued, as appropriate, for environmental remediation costs anticipated to be incurred at certain of our auction facilities. Liabilities for environmental matters included in "Other accrued expenses" were $0.2 million and $0.1 million at December 31, 2012 and December 31, 2011, respectively. No amounts have been accrued as receivables for potential reimbursement or recoveries to offset this liability.

We store a significant number of vehicles owned by various customers that are consigned to us to be auctioned. We are contingently liable for each consigned vehicle until the eventual sale or other disposition, subject to certain natural disaster exceptions. Individual stop loss and aggregate insurance coverage is maintained on the consigned vehicles. These consigned vehicles are not included in the consolidated balance sheets.

In the normal course of business, we also enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers and others. These guarantees and indemnifications do not materially impact our financial condition or results of operations, but indemnifications associated with our actions generally have no dollar limitations and currently cannot be quantified.

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

IAA—Lower Duwamish Waterway

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

Note 16—Commitments and Contingencies (Continued)

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 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.

Note 17—Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following (*in millions*):

	December 31,	
	2012	**2011**
Foreign currency translation gain	**$35.1**	$27.8
Unrealized gain (loss) on interest rate derivatives, net of tax	**(0.2)**	0.1
Unrealized gain on postretirement benefit obligation, net of tax	**0.2**	0.2
Accumulated other comprehensive income	**$35.1**	$28.1

Note 18—Related Party Transactions

Financial Advisory Agreements

The Equity Sponsors own the controlling interest in KAR LLC. We pay the Equity Sponsors travel expenses related to KAR Auction Services, pursuant to the terms contained in the financial advisory

Note 18—Related Party Transactions (Continued)

agreements. We paid the Equity Sponsors approximately $0.1 million, $0.1 million and $0.2 million for travel expenses for the years ended December 31, 2012, 2011 and 2010, respectively.

Additionally, the financial advisory agreements provide that KAR Auction Services indemnify the Equity Sponsors and their respective officers, directors, partners, employees, agents and control persons (as such term is used in the Securities Act and the rules and regulations thereunder) against any and all claims, losses and expenses as incurred arising in connection with the merger and the transactions contemplated by the merger agreement (including the financing of the merger) entered into in connection with the 2007 Transactions.

Registration Rights Agreement

Pursuant to a registration rights agreement entered into in connection with the 2007 Transactions, KAR LLC caused us to file a registration statement (Registration No. 333-174038) under the Securities Act. In December 2012, pursuant to the registration statement, KAR LLC sold 15,525,000 of its shares in KAR Auction Services. We incurred expenses of $0.6 million related to such sale and we received no proceeds from the sale. After such sale, as of December 31, 2012, affiliates of the Equity Sponsors, other equity co-investors and members of our management held approximately 67% of our outstanding common stock directly or indirectly through their investment in KAR LLC.

Note 19—Segment Information

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

ADESA Auctions encompasses all physical and online wholesale auctions throughout North America (U.S., Canada and Mexico). ADESA Auctions relates to used vehicle remarketing, including auction services, remarketing, or make ready services and all are interrelated, synergistic elements along the auto remarketing chain.

IAA encompasses all salvage auctions throughout North America (U.S. and Canada). IAA provides insurance companies and other vehicle suppliers cost-effective salvage processing solutions, including selling total loss and recovered theft vehicles. As such, IAA relates to total loss vehicle remarketing, including auction services, remarketing, or make ready services. All are interrelated, synergistic elements along the total loss vehicle remarketing chain.

AFC is primarily engaged in the business of providing short-term, inventory-secured financing to independent, used vehicle dealers. AFC also includes other businesses and ventures that AFC may enter into, focusing on providing independent used vehicle dealer customers with other related services and products. AFC conducts business primarily at or near wholesale used vehicle auctions in the U.S. and Canada.

Note 19—Segment Information (Continued)

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

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2012 *(in millions)*:

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,053.5	$ 716.1	$ 193.8	$ 0	$1,963.4
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	595.7	449.5	41.9	0	1,087.1
Selling, general and administrative	249.3	69.8	21.3	78.7	419.1
Depreciation and amortization	96.9	68.1	23.3	1.9	190.2
Total operating expenses	941.9	587.4	86.5	80.6	1,696.4
Operating profit (loss)	111.6	128.7	107.3	(80.6)	267.0
Interest expense	1.1	1.4	15.0	101.9	119.4
Other (income) expense, net	(2.6)	(1.2)	0	(0.2)	(4.0)
Intercompany expense (income)	60.2	38.3	(17.8)	(80.7)	0
Income (loss) before income taxes	52.9	90.2	110.1	(101.6)	151.6
Income taxes	14.5	33.7	46.0	(34.6)	59.6
Net income (loss)	$ 38.4	$ 56.5	$ 64.1	$ (67.0)	$ 92.0
Assets	$2,270.1	$1,228.9	$1,386.5	$ 36.8	$4,922.3
Capital expenditures	$ 42.4	$ 47.3	$ 7.0	$ 5.3	$ 102.0

Note 19—Segment Information (Continued)

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2011 *(in millions)*:

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,017.4	$ 700.1	$ 168.8	$ 0	$1,886.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	582.3	415.3	37.6	0	1,035.2
Selling, general and administrative	219.6	82.3	22.1	65.4	389.4
Depreciation and amortization	88.1	65.8	24.7	1.2	179.8
Total operating expenses	890.0	563.4	84.4	66.6	1,604.4
Operating profit (loss)	127.4	136.7	84.4	(66.6)	281.9
Interest expense	1.0	2.1	12.0	128.0	143.1
Other (income) expense, net	0.3	(5.3)	0	0.3	(4.7)
Loss on extinguishment of debt	0	0	0	53.5	53.5
Intercompany expense (income)	52.4	38.3	(14.4)	(76.3)	0
Income (loss) before income taxes	73.7	101.6	86.8	(172.1)	90.0
Income taxes	17.9	36.1	29.6	(65.8)	17.8
Net income (loss)	$ 55.8	$ 65.5	$ 57.2	$(106.3)	$ 72.2
Assets	$2,281.1	$1,177.7	$1,282.4	$ 37.9	$4,779.1
Capital expenditures	$ 45.5	$ 34.6	$ 5.7	$ 0	$ 85.8

Note 19—Segment Information (Continued)

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2010 *(in millions)*:

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,075.9	$ 610.4	$ 136.3	$ 0	$1,822.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	611.2	362.0	34.1	0	1,007.3
Selling, general and administrative	211.9	78.9	20.6	63.8	375.2
Depreciation and amortization	86.9	58.9	25.0	0.5	171.3
Total operating expenses	910.0	499.8	79.7	64.3	1,553.8
Operating profit (loss)	165.9	110.6	56.6	(64.3)	268.8
Interest expense	0.9	2.3	7.2	131.0	141.4
Other (income) expense, net	(1.0)	(1.3)	1.6	(1.4)	(2.1)
Loss on extinguishment of debt	0	0	0	32.7	32.7
Intercompany expense (income)	42.3	38.2	(11.7)	(68.8)	0
Income (loss) before income taxes	123.7	71.4	59.5	(157.8)	96.8
Income taxes	43.6	26.7	21.1	(64.2)	27.2
Net income (loss)	$ 80.1	$ 44.7	$ 38.4	$ (93.6)	$ 69.6
Assets	$2,036.4	$1,188.9	$1,171.7	$ 128.0	$4,525.0
Capital expenditures	$ 44.3	$ 34.3	$ 0.3	$ 0	$ 78.9

Geographic Information

Most of our operations outside the U.S. are in Canada. Information regarding the geographic areas of our operations is set forth below *(in millions)*:

	Year Ended December 31,		
	2012	2011	2010
Operating revenues			
U.S.	**$1,645.9**	$1,563.9	$1,500.3
Foreign	**317.5**	322.4	322.3
	$1,963.4	$1,886.3	$1,822.6

Note 19—Segment Information (Continued)

	December 31,	
	2012	2011
Long-lived assets		
U.S.	**$3,097.3**	$3,158.4
Foreign	**243.6**	247.5
	$3,340.9	$3,405.9

No single customer accounted for more than ten percent of our total revenues.

Note 20—Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indicative of the results that may be expected for the year.

2012 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$506.9	$487.9	$474.9	$493.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	269.4	263.2	264.1	290.4
Selling, general, and administrative expenses	114.1	103.5	102.3	99.2
Depreciation and amortization	48.6	48.0	46.8	46.8
Total operating expenses	432.1	414.7	413.2	436.4
Operating profit	74.8	73.2	61.7	57.3
Interest expense	30.3	29.6	29.9	29.6
Other (income) expense, net	0.1	(0.5)	(1.2)	(2.4)
Income before income taxes	44.4	44.1	33.0	30.1
Income taxes	18.4	20.2	13.8	7.2
Net income	$ 26.0	$ 23.9	$ 19.2	$ 22.9
Basic net income per share of common stock	$ 0.19	$ 0.18	$ 0.14	$ 0.17
Diluted net income per share of common stock	$ 0.19	$ 0.17	$ 0.14	$ 0.16

Note 20—Quarterly Financial Data (Unaudited) (Continued)

2011 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$484.7	$472.7	$449.1	$479.8
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	264.5	254.4	247.3	269.0
Selling, general, and administrative expenses	102.7	99.4	80.4	106.9
Depreciation and amortization	44.1	43.6	43.8	48.3
Total operating expenses	411.3	397.4	371.5	424.2
Operating profit	73.4	75.3	77.6	55.6
Interest expense	33.2	49.7	29.4	30.8
Other (income) expense, net	(0.6)	(6.7)	1.3	1.3
Loss on extinguishment of debt	0	53.5	0	0
Income (loss) before income taxes	40.8	(21.2)	46.9	23.5
Income taxes	1.0	(6.9)	14.7	9.0
Net income (loss)	$ 39.8	$ (14.3)	$ 32.2	$ 14.5
Basic net income (loss) per share of common stock	$ 0.29	$ (0.11)	$ 0.24	$ 0.11
Diluted net income (loss) per share of common stock	$ 0.29	$ (0.11)	$ 0.23	$ 0.11

Note 21—Supplemental Guarantor Information

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

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

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Income
For the Year Ended December 31, 2012
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$ 0	$1,481.7	$481.7	$0	$1,963.4
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	931.5	155.6	0	1,087.1
Selling, general and administrative	16.4	341.8	60.9	0	419.1
Depreciation and amortization	0	167.4	22.8	0	190.2
Total operating expenses	16.4	1,440.7	239.3	0	1,696.4
Operating profit (loss)	(16.4)	41.0	242.4	0	267.0
Interest expense	46.0	55.9	17.5	0	119.4
Other (income) expense, net	0	(1.8)	(2.2)	0	(4.0)
Intercompany expense (income)	0	(17.8)	17.8	0	0
Income (loss) before income taxes	(62.4)	4.7	209.3	0	151.6
Income taxes	(22.0)	6.3	75.3	0	59.6
Net income (loss)	$(40.4)	$ (1.6)	$134.0	$0	$ 92.0

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Income
For the Year Ended December 31, 2011
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$ 0	$1,423.8	$462.5	$0	$1,886.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	876.0	159.2	0	1,035.2
Selling, general and administrative	4.3	330.1	55.0	0	389.4
Depreciation and amortization	0	155.3	24.5	0	179.8
Total operating expenses	4.3	1,361.4	238.7	0	1,604.4
Operating profit (loss)	(4.3)	62.4	223.8	0	281.9
Interest expense	69.5	59.4	14.2	0	143.1
Other (income) expense, net	0	(3.0)	(1.7)	0	(4.7)
Loss on extinguishment of debt	53.5	0	0	0	53.5
Intercompany expense (income)	0	(17.1)	17.1	0	0
Income (loss) before income taxes	(127.3)	23.1	194.2	0	90.0
Income taxes	(48.8)	(1.5)	68.1	0	17.8
Net income (loss)	$ (78.5)	$ 24.6	$126.1	$0	$ 72.2

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Income
For the Year Ended December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	$ 0	$1,389.8	$432.8	$0	$1,822.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	847.0	160.3	0	1,007.3
Selling, general and administrative	5.1	321.9	48.2	0	375.2
Depreciation and amortization	0	147.7	23.6	0	171.3
Total operating expenses	5.1	1,316.6	232.1	0	1,553.8
Operating profit (loss)	(5.1)	73.2	200.7	0	268.8
Interest expense	70.7	58.6	12.1	0	141.4
Other (income) expense, net	0	(1.2)	(0.9)	0	(2.1)
Loss on extinguishment of debt	32.7	0	0	0	32.7
Intercompany expense (income)	0	(17.9)	17.9	0	0
Income (loss) before income taxes	(108.5)	33.7	171.6	0	96.8
Income taxes	(44.1)	10.5	60.8	0	27.2
Net income (loss)	$ (64.4)	$ 23.2	$110.8	$0	$ 69.6

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended December 31, 2012
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	$(40.4)	$(1.6)	$134.0	$0	$92.0
Other comprehensive income (loss)					
Foreign currency translation gain	0	0	7.3	0	7.3
Unrealized gain (loss) on interest rate deriviatives, net of tax	(0.3)	0	0	0	(0.3)
Total other comprehensive income (loss)	(0.3)	0	7.3	0	7.0
Comprehensive income (loss)	$(40.7)	$(1.6)	$141.3	$0	$99.0

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended December 31, 2011
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	$(78.5)	$24.6	$126.1	$0	$72.2
Other comprehensive income (loss)					
Foreign currency translation gain (loss)	0	0	(9.0)	0	(9.0)
Unrealized gain (loss) on interest rate deriviatives, net of tax	1.6	0	0	0	1.6
Early termination of swap agreement, net of tax	9.0	0	0	0	9.0
Total other comprehensive income (loss)	10.6	0	(9.0)	0	1.6
Comprehensive income (loss)	$(67.9)	$24.6	$117.1	$0	$73.8

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	$(64.4)	$23.2	$110.8	$0	$69.6
Other comprehensive income (loss)					
Foreign currency translation gain	0	0	12.0	0	12.0
Unrealized gain (loss) on interest rate deriviatives, net of tax	(4.8)	0	0	0	(4.8)
Unrealized loss on postretirement benefit obligation	0	(0.1)	0	0	(0.1)
Total other comprehensive income (loss)	(4.8)	(0.1)	12.0	0	7.1
Comprehensive income (loss)	$(69.2)	$23.1	$122.8	$0	$76.7

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Balance Sheet
As of December 31, 2012
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$ 0	$ 70.7	$ 38.0	$ 0	$ 108.7
Restricted cash	0	0	11.9	0	11.9
Trade receivables, net of allowances	0	300.2	62.2	(20.0)	342.4
Finance receivables, net of allowances	0	8.2	988.0	0	996.2
Deferred income tax assets	0.1	35.3	0	0	35.4
Other current assets	1.8	75.8	9.2	0	86.8
Total current assets	1.9	490.2	1,109.3	(20.0)	1,581.4
Other assets					
Investments in and advances to affiliates, net	2,387.5	360.3	202.7	(2,950.5)	0
Goodwill	0	1,674.7	4.9	0	1,679.6
Customer relationships, net of accumulated amortization	0	520.4	98.5	0	618.9
Other intangible assets, net of accumulated amortization	0	304.4	0.8	0	305.2
Unamortized debt issuance costs	21.8	0	3.1	0	24.9
Other assets	0	10.9	0.7	0	11.6
Total other assets	2,409.3	2,870.7	310.7	(2,950.5)	2,640.2
Property and equipment, net of accumulated depreciation	0	565.0	135.7	0	700.7
Total assets	$2,411.2	$3,925.9	$1,555.7	$(2,970.5)	$4,922.3

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Balance Sheet
As of December 31, 2012
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Liabilities and Stockholders' Equity					
Current liabilities					
Accounts payable	$ 0	$ 379.0	$ 29.3	$ (19.9)	$ 388.4
Accrued employee benefits and compensation expenses	0	56.1	7.4	0	63.5
Accrued interest	1.4	0	0.2	0	1.6
Other accrued expenses	0	63.8	12.0	0	75.8
Income taxes payable	0	0.6	0	0	0.6
Obligations collateralized by finance receivables	0	0	713.3	0	713.3
Current maturities of long-term debt	43.7	0	0	0	43.7
Total current liabilities	45.1	499.5	762.2	(19.9)	1,286.9
Non-current liabilities					
Investments by and advances from affiliates, net	178.7	0	0	(178.7)	0
Long-term debt	953.1	821.5	0	0	1,774.6
Deferred income tax liabilities	0	297.3	21.3	0	318.6
Other liabilities	0	80.6	17.9	0	98.5
Total non-current liabilities	1,131.8	1,199.4	39.2	(178.7)	2,191.7
Commitments and contingencies					
Stockholders' equity					
Total stockholders' equity	1,234.3	2,227.0	754.3	(2,771.9)	1,443.7
Total liabilities and stockholders' equity	$2,411.2	$3,925.9	$1,555.7	$(2,970.5)	$4,922.3

Note 21—Supplemental Guarantor Information (Continued)

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

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

Note 21—Supplemental Guarantor Information (Continued)

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

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

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash Flows For the Year Ended December 31, 2012 (In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net cash (used by) provided by operating activities	$ 112.0	$131.0	$ 47.2	$0	$ 290.2
Investing activities					
Net decrease (increase) in finance receivables held for investment	0	(2.9)	(123.6)	0	(126.5)
Acquisition of businesses, net of cash acquired	0	(1.1)	0	0	(1.1)
Purchases of property, equipment and computer software	0	(93.1)	(8.9)	0	(102.0)
Proceeds from the sale of property and equipment	0	5.7	0	0	5.7
(Increase) decrease in restricted cash	0	0	(3.7)	0	(3.7)
Net cash (used by) provided by investing activities	0	(91.4)	(136.2)	0	(227.6)
Financing activities					
Net increase (decrease) in book overdrafts	0	(19.2)	(4.9)	0	(24.1)
Net increase (decrease) in borrowings from lines of credit	(68.9)	0	0	0	(68.9)
Net increase (decrease) in obligations collateralized by finance receivables	0	0	101.1	0	101.1
Payments for debt issuance costs/amendments	(3.4)	0	0	0	(3.4)
Payments on long-term debt	(17.0)	0	0	0	(17.0)
Payments on capital leases	0	(13.4)	(0.5)	0	(13.9)
Payments of contingent consideration and deferred acquisition costs	0	(5.6)	0	0	(5.6)
Issuance of common stock under stock plans	3.3	0	0	0	3.3
Excess tax benefits from stock-based compensation	0	1.0	0	0	1.0
Dividends paid to stockholders	(26.0)	0	0	0	(26.0)
Net cash provided by (used by) financing activities	(112.0)	(37.2)	95.7	0	(53.5)
Effect of exchange rate changes on cash	0	0	2.2	0	2.2
Net increase (decrease) in cash and cash equivalents	0	2.4	8.9	0	11.3
Cash and cash equivalents at beginning of period	0	68.3	29.1	0	97.4
Cash and cash equivalents at end of period	$ 0	$ 70.7	$ 38.0	$0	$ 108.7

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2011
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net cash (used by) provided by operating activities	$ 12.8	$ 251.9	$ 41.1	$0	$ 305.8
Investing activities					
Net decrease (increase) in finance receivables held for investment	0	2.2	(122.3)	0	(120.1)
Acquisition of businesses, net of cash acquired	0	(214.6)	0	0	(214.6)
Purchases of property, equipment and computer software	0	(83.6)	(2.2)	0	(85.8)
Proceeds from the sale of property, equipment and computer software	0	0.3	0	0	0.3
Decrease (increase) in restricted cash	0	0	0.4	0	0.4
Net cash (used by) provided by investing activities	0	(295.7)	(124.1)	0	(419.8)
Financing activities					
Net (decrease) increase in book overdrafts	0	28.1	4.4	0	32.5
Net (decrease) increase in borrowings from lines of credit	68.9	0	0	0	68.9
Net increase in obligations collateralized by finance receivables	0	0	90.2	0	90.2
Proceeds from long-term debt	1,691.5	0	0	0	1,691.5
Payments for debt issuance costs/amendments	(24.3)	(5.2)	(1.1)	0	(30.6)
Payments on long-term debt	(1,153.1)	0	0	0	(1,153.1)
Payments for early extinguishment of debt	(600.7)	0	0	0	(600.7)
Payments on capital leases	0	(8.0)	(0.5)	0	(8.5)
Payments of contingent consideration and deferred acquisition costs	0	(3.9)	0	0	(3.9)
Initial net investment for interest rate caps	(1.1)	0	0	0	(1.1)
Issuance of common stock under stock plans	6.0	0	0	0	6.0
Excess tax benefits from stock-based compensation	0	1.8	0	0	1.8
Net cash (used by) provided by financing activities	(12.8)	12.8	93.0	0	93.0
Effect of exchange rate changes on cash	0	0	(0.7)	0	(0.7)
Net increase (decrease) in cash and cash equivalents	0	(31.0)	9.3	0	(21.7)
Cash and cash equivalents at beginning of period	0	99.3	19.8	0	119.1
Cash and cash equivalents at end of period	$ 0	$ 68.3	$ 29.1	$0	$ 97.4

Note 21—Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net cash (used by) provided by operating activities	$ 417.1	$(105.5)	$ 156.0	$0	$ 467.6
Investing activities					
Net decrease (increase) in finance receivables held for investment	0	5.6	(674.6)	0	(669.0)
Acquisition of businesses, net of cash acquired	0	(48.7)	0	0	(48.7)
Purchases of property, equipment and computer software	0	(75.6)	(3.3)	0	(78.9)
Proceeds from the sale of property, equipment and computer software	0	2.0	0	0	2.0
Decrease (increase) in restricted cash	0	3.7	(3.0)	0	0.7
Net cash (used by) provided by investing activities	0	(113.0)	(680.9)	0	(793.9)
Financing activities					
Net (decrease) increase in book overdrafts	0	(17.1)	0.4	0	(16.7)
Net increase in obligations collateralized by finance receivables	0	0	520.1	0	520.1
Payments for debt issuance costs/amendments	(1.3)	0	0	0	(1.3)
Payments on long-term debt	(103.3)	0	0	0	(103.3)
Payments for early extinguishment of debt	(317.4)	0	0	0	(317.4)
Payments on capital leases	0	(4.6)	(0.4)	0	(5.0)
Payments of contingent consideration	0	(2.0)	0	0	(2.0)
Issuance of common stock under stock plans	4.9	0	0	0	4.9
Excess tax benefits from stock-based compensation	0	1.7	0	0	1.7
Net cash (used by) provided by financing activities	(417.1)	(22.0)	520.1	0	81.0
Effect of exchange rate changes on cash	0	0	0.5	0	0.5
Net increase (decrease) in cash and cash equivalents	0	(240.5)	(4.3)	0	(244.8)
Cash and cash equivalents at beginning of period	0	339.8	24.1	0	363.9
Cash and cash equivalents at end of period	$ 0	$ 99.3	$ 19.8	$0	$ 119.1

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

Management's report on our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the related report of KPMG LLP, our independent registered public accounting firm, are included in Item 8, Financial Statements and Supplementary Data under the headings Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm, respectively, and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our directors and nominees will be included in our Definitive Proxy Statement for our 2013 Annual Meeting of Stockholders and such information will be incorporated by reference herein. Our executive officers as of February 15, 2013, are as follows:

Brian T. Clingen, 53, Chairman of the Board. Mr. Clingen has been our Chairman of the Board since April 2007. Mr. Clingen also served as our Chief Executive Officer between April 2007 and September 2009. Mr. Clingen has served as a managing partner of BP Capital Management since 1998. Established in 1998, BP Capital Management manages private equity investments principally in the service and finance sectors. Prior to founding BP Capital Management, Mr. Clingen was Chief Financial Officer of Universal Outdoor between 1988 and 1996. Kelso invested in Universal Outdoor in 1993.

James P. Hallett, 59, Chief Executive Officer and Director. Mr. Hallett has been our Chief Executive Officer since September 2009. Mr. Hallett was President and Chief Executive Officer of ADESA between April 2007 and September 2009. Mr. Hallett previously served in the following positions between August 1996 and May 2005: Executive Vice President of ADESA, Inc. from May 2004 to May 2005; President of ADESA Corporation, LLC from March 2004 to May 2005; President of ADESA Corporation between August 1996 and October 2001 and again between January 2003 and March 2004; Chief Executive Officer of ADESA Corporation from August 1996 to July 2003; ADESA Corporation's Chairman from October 2001 to July 2003; Chairman, President and Chief Executive Officer of ALLETE Automotive Services, Inc. from January 2001 to January 2003 and Executive Vice President from August 1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafter served as President of the Columbus Fair Auto Auction.

Thomas J. Caruso, 53, President and Chief Executive Officer of ADESA. Mr. Caruso has been President and Chief Executive Officer of ADESA since September 2009. Mr. Caruso was Chief Operating Officer of ADESA from May 2008 to September 2009. Mr. Caruso also served as Executive Vice President of ADESA from April 2007 to May 2008 and Regional Vice President of ADESA from January 2000 to April 2007. From November 1992 to January 2000 Mr. Caruso served as General Manager of ADESA Boston.

Thomas C. O'Brien, 59, Chief Executive Officer of IAA and Director. Mr. O'Brien became Chief Executive Officer of IAA in November 2000. Mr. O'Brien also served as President of IAA from November 2000 to June 2011. Prior to joining IAA, Mr. O'Brien served as President of Thomas O'Brien & Associates from 1999 to 2000, Executive Vice President of Safelite Glass Corporation from 1998 to 1999, Executive Vice President of Vistar, Inc. from 1996 to 1997 and President of U.S.A. Glass, Inc. from 1992 to 1996. Mr. O'Brien is also a director of the Core Logic Corporation.

Donald S. Gottwald, 46, President and Chief Executive Officer of AFC. Mr. Gottwald has been President and Chief Executive Officer of AFC since January 2009. Previously, Mr. Gottwald served in the role of Executive Vice President of Dealer Business for HSBC Auto Finance from December 2005 to October 2008. Prior to working at HSBC Auto Finance, Mr. Gottwald served in several roles of increased responsibility with GMAC Financial Services from June 1993 to December 2005, including Managing Director of Saab Financial Services Corp. and Managing Director of American Suzuki Financial Services. Mr. Gottwald has been active in the American Financial Services Association and serves on the association's board of directors.

Peter J. Kelly, 44, President and Chief Executive Officer of OPENLANE. Mr. Kelly has been President and Chief Executive Officer of OPENLANE since February 2011. Previously, Mr. Kelly was President and Chief Financial Officer of OPENLANE from February 2010 to February 2011. Prior to

that, Mr. Kelly was Chief Financial Officer of OPENLANE from May 2008 to February 2010. Mr. Kelly was a co-founder of OPENLANE in 1999 and served in a number of executive roles at OPENLANE from 1999 to 2008.

Eric M. Loughmiller, 53, Executive Vice President and Chief Financial Officer. Mr. Loughmiller has been Executive Vice President and Chief Financial Officer since April 2007. Previously, from 2001 to 2006, Mr. Loughmiller was the Vice President and Chief Financial Officer of ThoughtWorks, Inc., an information technology consulting firm. Prior to that, Mr. Loughmiller served as Executive Vice President and Chief Financial Officer of May & Speh, Inc. from 1996 to 1998 until May & Speh was acquired by Acxiom Corporation. Mr. Loughmiller was the finance leader of the Outsourcing Division of Acxiom Corporation from 1998 to 2000. Prior to joining May & Speh, Mr. Loughmiller was an audit partner with PricewaterhouseCoopers LLP, an independent registered public accounting firm. Mr. Loughmiller is a certified public accountant.

Rebecca C. Polak, 42, Executive Vice President, General Counsel and Secretary. Ms. Polak has been Executive Vice President, General Counsel and Secretary since April 2007. Ms. Polak previously served as the Assistant General Counsel and Assistant Secretary of ADESA from February 2005 to April 2007. Prior to joining ADESA, Ms. Polak practiced corporate and securities law with Krieg DeVault in Indianapolis from 2000 to 2005 and with Haynes and Boone in Dallas from 1995 to 1999.

Benjamin Skuy, 50, Executive Vice President of International Markets and Strategic Initiatives. Mr. Skuy has been Executive Vice President of International Markets and Strategic Initiatives since September 2009. Mr. Skuy previously served in the following positions between July 1999 and September 2009: Executive Vice President of International Markets and Managing Director of ADESA Canada from January 2008 to September 2009; Managing Director and Chief Operating Officer of ADESA Canada from July 2006 to January 2008; Chief Operating Officer of ADESA Canada from January 2002 to July 2006; and Chief Financial Officer of ADESA Canada from July 1999 to January 2002. Prior to joining ADESA, Mr. Skuy served as Assistant Vice President at Manulife Financial from June 1998 to July 1999. From August 1990 to May 1998 he served as Senior Manager at The Bank of Nova Scotia.

David Vignes, 50, Executive Vice President of Enterprise Optimization. Mr. Vignes has been Executive Vice President of Enterprise Optimization since September 2009. Previously, Mr. Vignes served as Senior Vice President of Operations and Strategic Improvement of ADESA from July 2007 to August 2009. Prior to joining ADESA, Mr. Vignes served as Senior Vice President at Steiner + Associates, a real estate development company, from April 2004 to June 2007. From 1991 to 2004, Mr. Vignes held several executive positions in finance and operations with Disney Corporation companies, such as Disneyland Paris, Walt Disney World Orlando and the Disney cruise line.

Warren W. Byrd, 50, Executive Vice President of Corporate Development and Real Estate. Mr. Byrd has been Executive Vice President of Corporate Development and Real Estate since June 2010. Mr. Byrd previously served as the Executive Vice President of Corporate Development of ADESA from April 2007 to June 2010. From April 2004 to April 2007, Mr. Byrd was the Chief Operating Officer of ServNet Auction Group, a trade co-operative of over 20 independent auto auctions in the U.S. Mr. Byrd previously served in the following positions between September 1994 and November 2003: President of ADESA Impact, a salvage auction subsidiary of ADESA, between February 2002 and November 2003; Senior Vice President and Chief Information Officer of ADESA between May 2001 and February 2002; Vice President of Corporate Development of ADESA between January 1999 and May 2001; General Counsel of ADESA between August 1996 and January 1999; and Legal Counsel of ADESA between September 1994 and August 1996. Prior to joining ADESA, Mr. Byrd practiced law with McHale, Cook and Welch in Indianapolis from May 1989 to September 1994.

Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this item is incorporated by reference herein from our Definitive Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Code of Business Conduct and Ethics

We have adopted the Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. In addition, we have adopted the Code of Ethics for Principal Executive and Senior Financial Officers that applies to the Company's principal executive officer, principal financial and accounting officer and such other persons who are designated by our board of directors. Both codes are available on our Web site at www.karauctionservices.com and available in print to any stockholder who requests it. Information on, or accessible through, our Web site is not part of this Form 10-K. We expect that any amendments to these codes, or any waivers of their requirements, will be disclosed on our website.

Controlled Company Exception

KAR LLC controls a majority of the voting power of our outstanding common stock. The Equity Sponsors and management indirectly own through their investment in KAR LLC approximately 67% of our common stock. As a result, we are a "controlled company" within the meaning of the NYSE corporate governance standards. Under the NYSE 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 NYSE corporate governance standards, 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.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference herein from our Definitive Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 403 of Regulation S-K will be included in our Definitive Proxy Statement for our 2013 Annual Meeting and such information will be incorporated by reference herein.

Equity Compensation Plan Information

The following table sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2012.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holder(s)	9,603,535	$11.51	3,542,562
Equity compensation plans not approved by security holders	—	—	—
Total	9,603,535	$11.51	3,542,562

(1) Includes (a) service and exit options issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, (b) service and exit options issued under the KAR Auction Services, Inc. Stock Incentive Plan and (c) service and exit options carried over from the Axle Holdings, Inc. Stock Incentive Plan at the time of the merger on April 20, 2007.

(2) Awards issued post-merger by KAR Auction Services, Inc. have exercise prices ranging from $10.00 to $18.80. Axle Holdings, Inc. options that were carried over at the merger date have exercise prices ranging from $3.14 to $8.52.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference herein from our Definitive Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 is incorporated by reference herein from our Definitive Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

PART IV

Item 15. Exhibits, Financial Statement Schedules

a) The following documents have been filed as part of this report or, where noted, incorporated by reference:

1) Financial Statements—the consolidated financial statements of KAR Auction Services, Inc. and its consolidated subsidiaries are filed as part of this report under Item 8.

2) Financial Statement Schedules—all schedules have been omitted because the matter or conditions are not present or the information required to be set forth therein is included in the consolidated financial statements and related notes thereto.

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

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

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

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Annual Report not misleading. Additional information about KAR Auction Services may be found elsewhere in this Annual Report on Form 10-K and KAR Auction Services' other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See Item 1, "Business—Available Information."

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KAR Auction Services, Inc.

By: /s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer
February 22, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JAMES P. HALLETT James P. Hallett	Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2013
/s/ ERIC M. LOUGHMILLER Eric M. Loughmiller	Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2013
/s/ DAVID J. AMENT David J. Ament	Director	February 22, 2013
/s/ KELLY J. BARLOW Kelly J. Barlow	Director	February 22, 2013
/s/ THOMAS J. CARELLA Thomas J. Carella	Director	February 22, 2013
/s/ BRIAN T. CLINGEN Brian T. Clingen	Chairman of the Board and Director	February 22, 2013
/s/ ROBERT M. FINLAYSON Robert M. Finlayson	Director	February 22, 2013

Signature	Title	Date
/s/ PETER R. FORMANEK Peter R. Formanek	Director	February 22, 2013
/s/ MICHAEL B. GOLDBERG Michael B. Goldberg	Director	February 22, 2013
/s/ SANJEEV MEHRA Sanjeev Mehra	Director	February 22, 2013
/s/ CHURCH M. MOORE Church M. Moore	Director	February 22, 2013
/s/ THOMAS C. O'BRIEN Thomas C. O'Brien	Director	February 22, 2013
/s/ GREGORY P. SPIVY Gregory P. Spivy	Director	February 22, 2013
/s/ JONATHAN P. WARD Jonathan P. Ward	Director	February 22, 2013

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	S-1/A	333-161907	3.1	12/10/2009	
3.2	Amended and Restated By-Laws of KAR Auction Services, Inc.	S-1/A	333-161907	3.2	12/10/2009	
4.1a	Indenture, dated April 20, 2007 (the "Floating Senior Indenture"), among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), the guarantors from time to time parties thereto and Wells Fargo Bank, National Association, as Trustee, for $150,000,000 Floating Rate Senior Notes due 2014	S-4	333-148847	4.1	1/25/2008	
4.1b	Supplemental Indenture, dated December 26, 2007, to the Floating Senior Indenture	S-4	333-148847	4.4	1/25/2008	
4.1c	Second Supplemental Indenture, dated January 22, 2008, to the Floating Senior Indenture	S-4	333-148847	4.9	1/25/2008	
4.1d	Third Supplemental Indenture, dated May 6, 2008, to the Floating Senior Indenture	S-1/A	333-158666	4.12a	6/17/2009	
4.1e	Fourth Supplemental Indenture, dated September 30, 2008, to the Floating Senior Indenture	S-1/A	333-158666	4.13a	6/17/2009	
4.1f	Fifth Supplemental Indenture, dated March 26, 2009, to the Floating Senior Indenture	S-1/A	333-158666	4.14a	6/17/2009	
4.1g	Sixth Supplemental Indenture, dated February 23, 2010, to the Floating Senior Indenture	S-1	333-166047	4.9a	4/13/2010	
4.1h	Seventh Supplemental Indenture, dated July 27, 2010, to the Floating Senior Indenture	10-K	001-34568	4.1h	2/24/2011	
4.1i	Eighth Supplemental Indenture, dated November 23, 2010, to the Floating Senior Indenture	10-K	001-34568	4.1i	2/24/2011	
4.1j	Ninth Supplemental Indenture, dated January 31, 2012, to the Floating Senior Indenture					X

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
4.1k	Tenth Supplemental Indenture, dated July 10, 2012, to the Floating Senior Indenture					X
4.2	Exchange and Registration Rights Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), the guarantors as named in the respective Floating Senior Indenture, the Fixed Senior Indenture and Senior Subordinated Indenture, and Goldman, Sachs & Co., Bear Stearns & Co. Inc., UBS Securities LLC, and Deutsche Bank Securities Inc., as representatives of the several initial purchasers, for $150,000,000 Floating Rate Senior Notes due 2014, $450,000,000 8¾% Senior Notes due 2014 and $425,000,000 10% Senior Subordinated Notes due 2015	S-4	333-148847	4.7	1/25/2008	
4.3	Registration Rights Agreement, dated April 20, 2007, among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), KAR Holdings II, LLC, certain employees of KAR Auction Services, Inc. or its subsidiaries and each of their respective Permitted Transferees	S-4	333-148847	4.8	1/25/2008	
4.4	Form of common stock certificate	S-1/A	333-161907	4.15	12/10/2009	
10.1a	Credit Agreement, dated May 19, 2011, among KAR Auction Services, Inc., as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, as sole lead arranger, J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Barclays Capital and Deutsche Bank Securities Inc., as joint bookrunners, Goldman Sachs Lending Partners LLC, as syndication agent, and Barclays Bank PLC and Deutsche Bank Securities Inc., as co-documentation agents	10-Q	001-34568	10.1	8/9/2011	
10.1b	First Amendment to Credit Agreement, dated as of November 29, 2012, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders party thereto	8-K	001-34568	10.1	11/30/2012	

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.2	Guarantee and Collateral Agreement, dated May 19, 2011, made by KAR Auction Services, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, N.A., as administrative agent under the Credit Agreement	10-Q	001-34568	10.2	8/9/2011	
10.3	Intellectual Property Security Agreement, dated May 19, 2011, made by KAR Auction Services, Inc., ADESA, Inc., Automotive Finance Corporation, Automotive Finance Consumer Division, LLC and Insurance Auto Auctions, Inc., in favor of JPMorgan Chase Bank, N.A., as administrative agent for the secured parties (as defined in the Credit Agreement)	10-Q	001-34568	10.3	8/9/2011	
10.4*	Letter Agreement, dated February 24, 2010, between KAR LLC and Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek, Scott P. Pettit, John Kett, John Nordin and Sidney Kerley	10-K	001-34568	10.5	2/25/2010	
10.5*	Conversion Option Plan of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.)	S-1/A	333-158666	10.9	6/17/2009	
10.6a*	Form of Conversion Stock Option Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek, Scott P. Pettit, John Kett, John Nordin and Sidney Kerley	S-4	333-148847	10.10	1/25/2008	
10.6b*	Form of Amendment to Conversion Stock Option Agreement, dated October 30, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek and Scott P. Pettit	S-4	333-148847	10.11	1/25/2008	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.6c*	Form of Amendment to Conversion Stock Option Agreements, dated February 19, 2009, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and each of Thomas C. O'Brien, David R. Montgomery, Donald J. Hermanek and Scott P. Pettit	10-K	333-148847	10.10	3/11/2009	
10.7*	Form of Rollover Stock Option Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-4	333-148847	10.12	1/25/2008	
10.8*	Form of Conversion Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-1/A	333-158666	10.13	6/17/2009	
10.9*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032	10.1	12/24/2009	
10.10*	Form of Nonqualified Stock Option Agreement of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) pursuant to the Stock Incentive Plan	S-4	333-148847	10.15	1/25/2008	
10.11a*	Letter Agreement dated December 3, 2008, between Automotive Finance Corporation and Donald S. Gottwald	10-K	001-34568	10.15	2/25/2010	
10.11b*	Amendment to Offer Letter dated December 20, 2012, between Automotive Finance Corporation and Donald S. Gottwald					X
10.12a*	Amended and Restated Employment Agreement, dated April 2, 2001, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	S-4	333-148847	10.22	1/25/2008	
10.12b*	Amendment to Amended and Restated Employment Agreement, dated December 1, 2008, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	10-K	333-148847	10.31	3/11/2009	
10.13*	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.14a^	Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated April 20, 2007	S-1/A	333-158666	10.23	7/2/2009	
10.14b	First Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 10, 2009	10-K	001-34568	10.16b	2/28/2012	
10.14c	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 15, 2009	10-K	001-34568	10.16c	2/28/2012	
10.14d	Third Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated February 27, 2012	10-K	001-34568	10.16d	2/28/2012	
10.15a	Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated May 25, 2005	S-1/A	333-158666	10.24	6/17/2009	
10.15b	Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated November 2, 2006	S-4	333-148847	10.25	1/25/2008	
10.15c	First Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated April 20, 2007	S-4	333-148847	10.26	1/25/2008	
10.16*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program	10-K	333-148847	10.29	3/11/2009	
10.17a^	Amended and Restated Purchase and Sale Agreement, dated May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation	S-4	333-148847	10.32	1/25/2008	
10.17b	Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.17c	Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.17d^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.17e	Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.17f	Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.18a^	Fourth Amended and Restated Receivables Purchase Agreement, dated April 26, 2011, among AFC Funding Corporation, Automotive Finance Corporation, Fairway Finance Company, LLC, Monterey Funding LLC, Salisbury Receivables Company LLC, Deutsche Bank AG, New York Branch, Barclays Bank PLC and BMO Capital Markets Corp.	10-Q/A	001-34568	10.20	1/17/2012	
10.18b	Amendment No. 1 to Fourth Amended and Restated Receivables Purchase Agreement, dated May 20, 2011	10-K	001-34568	10.20b	2/28/2012	
10.18c^	Amendment No. 2 to Fourth Amended and Restated Receivables Purchase Agreement, dated October 12, 2011	10-K	001-34568	10.20c	2/28/2012	
10.18d^	Amendment No. 3 to Fourth Amended and Restated Receivables Purchase Agreement, dated April 2, 2012	10-Q	001-34568	10.20d	8/7/2012	
10.19a^	Amended and Restated Receivables Purchase Agreement, dated May 24, 2011, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada	10-Q/A	001-34568	10.22	1/17/2012	
10.19b^	Amending Agreement to Amended and Restated Receivables Purchase Agreement, dated August 1, 2012, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada	10-Q	001-34568	10.21b	11/7/2012	
10.20a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.3	9/9/2008	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.20b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.11	9/9/2008	
10.21a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.4	9/9/2008	
10.21b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.12	9/9/2008	
10.22a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and ADESA San Diego, LLC and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.5	9/9/2008	
10.22b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.13	9/9/2008	
10.23a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.6	9/9/2008	
10.23b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.14	9/9/2008	
10.24a	Ground Lease, dated September 4, 2008, between ADESA Washington, LLC and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.7	9/9/2008	
10.24b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.15	9/9/2008	
10.25a	Ground Lease, dated September 4, 2008, between ADESA Texas, Inc. and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.8	9/9/2008	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.25b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.16	9/9/2008	
10.26a	Ground Lease, dated September 4, 2008, between ADESA Florida, LLC and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.10	9/9/2008	
10.26b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.18	9/9/2008	
10.27a	Ground Sublease, dated October 3, 2008, between ADESA Atlanta, LLC and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.21	11/13/2008	
10.27b	Guaranty of Lease, dated October 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.22	11/13/2008	
10.28	Director Designation Agreement, dated December 10, 2009, among KAR Auction Services, Inc. (formerly known as KAR Holdings, Inc.) and KAR Holdings II, LLC	10-K	001-34568	10.34	2/24/2011	
10.29*	Form of KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	S-8	333-164032	10.2	12/24/2009	
10.30a*	Form of KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032	10.3	12/24/2009	
10.30b*	Amendment No. 1 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated March 31, 2010	10-Q	001-34568	10.60	8/4/2010	
10.30c*	Amendment No. 2 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated April 1, 2010	10-Q	001-34568	10.61	8/4/2010	
10.31*	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.32*	Form of Director Restricted Share Agreement	10-Q	001-34568	10.63	8/4/2010	
10.33*	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.34*	Form of Restricted Share Agreement	S-1/A	333-161907	10.66	12/4/2009	
10.35	Agreement and Plan of Merger dated as of August 15, 2011 by and among ADESA, Inc., Riley Acquisition, Inc., KAR Auction Services, Inc., OPENLANE, Inc. and Shareholder Representative Services LLC, as the securityholders representative	8-K	001-34568	2.1	8/15/2011	
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges					X
21.1	Subsidiaries of KAR Auction Services, Inc.					X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS**	XBRL Instance Document					X
101.SCH**	XBRL Taxonomy Extension Schema					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase					X

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

* Denotes management contract or compensation plan, contract or arrangement.

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

EXHIBIT 12.1

KAR Auction Services, Inc.
Statement of Computation of Ratio of Earnings to Fixed Charges
(In millions, except ratios)

	For the Year Ended December 31,		
	2012	**2011**	**2010**
Income before income taxes	**$151.6**	$ 90.0	$ 96.8
Fixed charges(1)			
Interest expense	**119.4**	143.1	141.4
Interest component of all rentals	**32.0**	30.0	29.3
Total fixed charges	**151.4**	173.1	170.7
Earnings before income taxes and fixed charges	**$303.0**	$263.1	$267.5
Ratio of earnings to fixed charges	**2.0**	1.5	1.6

(1) Fixed charges represent interest and the interest component of all rentals. We use a reasonable approximation of the interest factor related to operating leases in calculating the interest component of all rentals.

EXHIBIT 21.1

Subsidiaries of KAR Auction Services, Inc.

The following is a list of subsidiaries of KAR Auction Services, Inc. (a Delaware corporation):

Name	State or Jurisdiction of Incorporation or Organization
ADESA, Inc.	Delaware
ADESA Corporation, LLC	Indiana
A.D.E. of Ark-La-Tex, Inc.	Louisiana
A.D.E. of Knoxville, LLC	Tennessee
ADESA Ark-La-Tex, LLC	Louisiana
ADESA Arkansas, LLC	Delaware
ADESA Atlanta, LLC	New Jersey
ADESA Birmingham, LLC	Alabama
ADESA California, LLC	California
ADESA Charlotte, LLC	North Carolina
ADESA Colorado, LLC	Colorado
ADESA Dealer Services, LLC	Indiana
ADESA Des Moines, LLC	Iowa
ADESA Florida, LLC	Florida
ADESA Impact Texas, LLC	Texas
ADESA Indianapolis, LLC	Indiana
ADESA Lansing, LLC	Michigan
ADESA Lexington, LLC	Kentucky
ADESA Mexico, LLC	Indiana
ADESA Minnesota, LLC	Minnesota
ADESA Missouri, LLC	Missouri
ADESA Nevada, LLC	Nevada
ADESA New Jersey, LLC	New Jersey
ADESA New York, LLC	New York
ADESA Ohio, LLC	Ohio
ADESA Oklahoma, LLC	Oklahoma
ADESA Pennsylvania, LLC	Pennsylvania
ADESA Phoenix, LLC	New Jersey
ADESA San Diego, LLC	California
ADESA South Florida, LLC	Indiana
ADESA Texas, Inc.	Texas
ADESA Virginia, LLC	Virginia
ADESA Wisconsin, LLC	Wisconsin
AFC Cal, LLC	California
Asset Holdings III, L.P.	Ohio
Auto Portfolio Services, LLC	Indiana
Auto Dealers Exchange of Concord, LLC	Massachusetts
Auto Dealers Exchange of Memphis, LLC	Tennessee
Automotive Finance Consumer Division, LLC	Indiana
Automotive Finance Corporation	Indiana
Automotive Recovery Services, Inc.	Indiana
AutoVIN, Inc.	Indiana
Liberty Recovery, LLC	Indiana
PAR, Inc.	Indiana
Axle Holdings, Inc.	Delaware
Axle Holdings Acquisition Company, LLC	Delaware
Insurance Auto Auctions, Inc.	Illinois

Name	State or Jurisdiction of Incorporation or Organization
Insurance Auto Auctions Corp.	Delaware
Insurance Auto Auctions Tennessee LLC	Tennessee
Insurance Auto Auctions of Georgia LLC	Georgia
IAA Acquisition Corp.	Delaware
IAA Services, Inc.	Illinois
Auto Disposal Systems, Inc.	Ohio
ADS Ashland, LLC	Ohio
ADS Priority Transport Ltd.	Ohio
Dent Demon, LLC	Indiana
Sioux Falls Auto Auction, Inc.	South Dakota
Tri-State Auction Co., Inc.	North Dakota
Zabel & Associates, Inc.	North Dakota
LiveBlock Auctions International, Inc.	Nevada
LiveBlock Auctions Canada Ltd.	Saskatchewan
WFEA Holdings, Inc.	Alberta
CarBuyCo, LLC	North Carolina
AFC Funding Corporation	Indiana
AuctionTrac, LLC	Indiana
OPENLANE, Inc.	Delaware
CarsArrive Network, Inc.	Georgia
Recovery Database Network, Inc.	Delaware
OPENLANE Canada Co.	Nova Scotia
OPENLANE Canada Inc.	Ontario
NEPO Auto Centre, Inc.	Ontario
Auction Vehicles of Mexico, S. de R.L. de C.V.	Federal District of Mexico
ADESUR S. de R.L. de C.V.	Federal District of Mexico
2540-0714 Quebec Inc.	Quebec
504811 NB Ltd.	New Brunswick
51937 Newfoundland & Labrador Limited	Newfoundland
79378 Manitoba Inc.	Manitoba
ADESA Auctions Canada Corporation	Nova Scotia
ADESA Montreal Corporation	Nova Scotia
ADESA Quebec Corporation	Quebec
ADESA Remarketing Services Inc.	Ontario
AutoVIN Canada Inc.	Nova Scotia
Automotive Finance Canada Inc.	Ontario
Greenlight Canada, ULC	Alberta
Impact Auto Auctions Ltd.	Ontario
Impact Auto Auctions Sudbury Ltd.	Ontario* (own 50%)
Suburban Auto Parts Inc.	Ontario

* Unless otherwise indicated, all subsidiaries are wholly owned.

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
KAR Auction Services, Inc.:

We consent to the incorporation by reference in registration statement (No. 333-174038) on Form S-3 and registration statements (No. 333-164032 and No. 333-168523) on Form S-8 of KAR Auction Services, Inc., of our report dated February 22, 2013, with respect to the consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which report appears in the December 31, 2012 annual report on Form 10-K of KAR Auction Services, Inc.

/s/ KPMG LLP

Indianapolis, Indiana
February 22, 2013

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James P. Hallett, certify that:

1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 22, 2013

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric M. Loughmiller, certify that:

1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 22, 2013

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Hallett, as Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 22, 2013

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric M. Loughmiller, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 22, 2013

Investor information

Corporate headquarters

KAR Auction Services, Inc.
13085 Hamilton Crossing Boulevard
Carmel, IN 46032
800-923-3725
karauctionservices.com

Stock listing

New York Stock Exchange
Ticker Symbol: KAR

Transfer agent

Inquiries and changes to stockholder accounts should be directed to our transfer agent:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800-937-5449
718-921-8124
https://secure.amstock.com/shareholder/sh_login.asp

Independent registered public accounting firm

KPMG LLP
111 Monument Circle
Suite 1500
Indianapolis, IN 46204-5100
317-636-5592

Investor relations

The following information is available without charge to stockholders and other interested parties:

- Annual Report to Stockholders
- Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission

To request these documents, or if you have any questions about KAR, please contact:

KAR Auction Services, Inc.
Investor Relations
13085 Hamilton Crossing Boulevard
Carmel, IN 46032
800-923-3725
investor_relations@karauctionservices.com

KAR Auction Services, Inc.
13085 Hamilton Crossing Boulevard
Carmel, IN 46032