

**KAR Holdings, Inc.**  
**June 30, 2007**

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**KAR Holdings, Inc.**  
**Consolidated Statements of Income**  
*(In millions)*  
*(Unaudited)*

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA April 1 – April 19, 2007	IAAI March 28 – April 19, 2007	ADESA April 1 – June 30, 2006	IAAI March 27 – June 25, 2006
Operating revenues					
ADESA	<b>\$190.9</b>	\$58.9	\$ --	\$239.7	\$ --
IAAI	<b>90.7</b>	--	22.6	--	78.3
AFC	<b><u>28.5</u></b>	<u>8.1</u>	<u>--</u>	<u>36.2</u>	<u>--</u>
Total operating revenues	<b>310.1</b>	67.0	22.6	275.9	78.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	<b>169.2</b>	34.3	14.6	137.7	54.0
Selling, general and administrative	<b>63.8</b>	16.1	4.8	63.8	11.9
Depreciation and amortization	<b>27.1</b>	3.8	1.3	11.0	5.7
Loss related to flood	<b>--</b>	--	--	--	0.3
Transaction expenses	<b><u>--</u></b>	<u>22.4</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total operating expenses	<b><u>260.1</u></b>	<u>76.6</u>	<u>20.7</u>	<u>212.5</u>	<u>71.9</u>
Operating profit (loss)	<b>50.0</b>	(9.6)	1.9	63.4	6.4
Interest expense, net	<b>43.9</b>	1.1	1.6	5.4	6.6
Other income, net	<b><u>(1.4)</u></b>	<u>(0.4)</u>	<u>--</u>	<u>(0.1)</u>	<u>--</u>
Income (loss) from continuing operations before income taxes	<b>7.5</b>	(10.3)	0.3	58.1	(0.2)
Income taxes	<b><u>2.8</u></b>	<u>6.4</u>	<u>1.0</u>	<u>21.9</u>	<u>(0.1)</u>
Income (loss) from continuing operations	<b>4.7</b>	(16.7)	(0.7)	36.2	(0.1)
Loss from discontinued operations, net of income taxes	<b><u>(0.1)</u></b>	<u>--</u>	<u>--</u>	<u>(0.1)</u>	<u>--</u>
Net income (loss)	<b><u>\$4.6</u></b>	<u>(\$16.7)</u>	<u>(\$0.7)</u>	<u>\$36.1</u>	<u>(\$0.1)</u>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Statements of Income**  
*(In millions)*  
*(Unaudited)*

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA January 1 – April 19, 2007	IAAI January 1 – April 19, 2007	ADESA January 1 – June 30, 2006	IAAI December 26, 2005 – June 25, 2006
Operating revenues					
ADESA	<b>\$190.9</b>	\$325.4	\$ --	\$490.1	\$ --
IAAI	<b>90.7</b>	--	114.8	--	156.0
AFC	<b><u>28.5</u></b>	<u>45.9</u>	<u>--</u>	<u>71.4</u>	<u>--</u>
Total operating revenues	<b>310.1</b>	371.3	114.8	561.5	156.0
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	<b>169.2</b>	187.3	73.6	281.9	105.6
Selling, general and administrative	<b>63.8</b>	85.5	22.2	130.7	24.7
Depreciation and amortization	<b>27.1</b>	15.9	7.9	21.8	10.6
Loss related to flood	<b>--</b>	--	--	--	3.2
Transaction expenses	<b><u>--</u></b>	<u>24.8</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total operating expenses	<b><u>260.1</u></b>	<u>313.5</u>	<u>103.7</u>	<u>434.4</u>	<u>144.1</u>
Operating profit	<b>50.0</b>	57.8	11.1	127.1	11.9
Interest expense, net	<b>43.9</b>	6.3	9.9	10.8	12.9
Other income, net	<b><u>(1.4)</u></b>	<u>(0.4)</u>	<u>--</u>	<u>(0.2)</u>	<u>--</u>
Income (loss) from continuing operations before income taxes	<b>7.5</b>	51.9	1.2	116.5	(1.0)
Income taxes	<b><u>2.8</u></b>	<u>30.5</u>	<u>1.5</u>	<u>44.0</u>	<u>(0.4)</u>
Income (loss) from continuing operations	<b>4.7</b>	21.4	(0.3)	72.5	(0.6)
Loss from discontinued operations, net of income taxes	<b><u>(0.1)</u></b>	<u>(0.1)</u>	<u>--</u>	<u>(0.1)</u>	<u>--</u>
Net income (loss)	<b><u>\$4.6</u></b>	<u>\$21.3</u>	<u>(\$0.3)</u>	<u>\$72.4</u>	<u>(\$0.6)</u>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Balance Sheets**  
*(In millions)*

	<u>Successor</u>	<u>Predecessor</u>	
	<u>June 30,</u> <u>2007</u>	<u>ADESA</u> <u>December 31,</u> <u>2006</u>	<u>IAAI</u> <u>December 31,</u> <u>2006</u>
	<i>(Unaudited)</i>		
<b>Assets</b>			
<i><b>Current assets</b></i>			
Cash and cash equivalents	<b>\$310.3</b>	\$195.7	\$14.0
Restricted cash	<b>16.0</b>	7.8	--
Trade receivables, net of allowances	<b>366.9</b>	192.8	56.6
Finance receivables, net of allowances	<b>234.2</b>	203.3	--
Retained interests in finance receivables sold	<b>75.0</b>	69.6	--
Deferred income tax assets	<b>32.4</b>	21.9	11.7
Other current assets	<b>41.5</b>	17.4	27.5
Total current assets	<b>1,076.3</b>	708.5	109.8
<i><b>Other assets</b></i>			
Goodwill	<b>1,470.3</b>	557.8	241.3
Other intangible assets, net of accumulated amortization	<b>1,500.0</b>	49.0	147.5
Unamortized debt issuance costs	<b>87.2</b>	5.2	8.1
Other assets	<b>41.9</b>	57.7	1.6
Total other assets	<b>3,099.4</b>	669.7	398.5
Property and equipment, net of accumulated depreciation	<b>785.7</b>	597.1	80.2
Total assets	<b><u>\$4,961.4</u></b>	<b><u>\$1,975.3</u></b>	<b><u>\$588.5</u></b>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Balance Sheets**  
*(In millions)*

	<b>Successor</b>	<b>Predecessor</b>	
	<b>June 30, 2007</b>	<b>ADESA December 31, 2006</b>	<b>IAAI December 31, 2006</b>
	<i>(Unaudited)</i>		
<b>Liabilities and Stockholders' Equity</b>			
<b><i>Current liabilities</i></b>			
Accounts payable	\$424.1	\$249.6	\$37.5
Accrued employee benefits and compensation expenses	46.0	43.1	4.9
Accrued interest	19.6	1.0	5.5
Other accrued expenses	86.4	41.1	9.0
Income taxes payable	7.4	11.3	--
Current maturities of long-term debt	15.6	30.0	2.2
Current liabilities of discontinued operations	<u>7.3</u>	<u>7.2</u>	<u>--</u>
Total current liabilities	<b>606.4</b>	383.3	59.1
<b><i>Non-current liabilities</i></b>			
Long-term debt	2,608.9	322.5	342.6
Deferred income tax liabilities	655.7	58.8	36.1
Other liabilities	<u>22.4</u>	<u>7.2</u>	<u>12.4</u>
Total non-current liabilities	<b>3,287.0</b>	388.5	391.1
Commitments and contingencies (Note 15)	--	--	--
<b><i>Stockholders' equity</i></b>			
Preferred stock, \$0.01 par value:			
Authorized shares: 5,000,000 (successor)			
50,000,000 (Predecessor – ADESA)			
Issued shares: none	--	--	--
Common stock, \$0.01 par value:			
Authorized shares: 20,000,000 (Successor)			
500,000,000 (Predecessor – ADESA)			
100 (Predecessor – IAAI)			
Issued shares: 10,656,641 (2007)			
94,868,104 (2006 Predecessor – ADESA)			
100 (2006 Predecessor – IAAI)	<b>0.1</b>	1.0	--
Additional paid-in capital	1,048.2	673.3	151.4
Retained earnings (deficit)	4.6	580.0	(13.1)
Treasury stock, at cost (Predecessor – ADESA)			
Shares: 4,785,335	--	(100.4)	--
Accumulated other comprehensive income	<u>15.1</u>	<u>49.6</u>	<u>--</u>
Total stockholders' equity	<b><u>1,068.0</u></b>	<b><u>1,203.5</u></b>	<b><u>138.3</u></b>
Total liabilities and stockholders' equity	<b><u>\$4,961.4</u></b>	<b><u>\$1,975.3</u></b>	<b><u>\$588.5</u></b>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
*(In millions)*  
*(Unaudited)*

**Predecessor ADESA**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at December 31, 2006 – Predecessor, ADESA</b>	94.9	\$1.0	\$673.3	\$580.0	(\$100.4)	\$49.6	\$1,203.5
Comprehensive income:							
Net income		--	--	21.3	--	--	21.3
Other comprehensive loss, net of tax:							
Foreign currency translation		--	--	--	--	8.4	
Unrealized loss on interest rate swaps		--	--	--	--	(0.1)	
Other comprehensive income							8.3
Comprehensive income							29.6
Issuance of common stock under stock plans		--	1.2	--	14.7	--	15.9
Stock-based compensation expense		--	6.4	--	--	--	6.4
Settlement of awards under stock plans		--	(28.4)	--	--	--	(28.4)
Tax benefits from employee stock plans		--	8.0	--	--	--	8.0
FIN 48 adjustment		--	--	(1.7)	--	--	(1.7)
Repurchase of common stock		--	--	--	(0.2)	--	(0.2)
<b>Balance at April 19, 2007 – Predecessor ADESA</b>	94.9	\$1.0	\$660.5	\$599.6	(\$85.9)	\$57.9	\$1,233.1

**Predecessor IAAI**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at December 31, 2006 – Predecessor, IAAI</b>	--	\$ --	\$151.4	(\$13.1)	\$ --	\$ --	\$138.3
Comprehensive income:							
Net income (loss)		--	--	(0.3)	--	--	(0.3)
Other comprehensive income, net of tax:							
Unrealized gain on interest rate swaps		--	--	--	--	--	
Other comprehensive income							--
Comprehensive loss							(0.3)
Stock-based compensation expense		--	2.6	--	--	--	2.6
<b>Balance at April 19, 2007 – Predecessor IAAI</b>	--	\$ --	\$154.0	(\$13.4)	\$ --	\$ --	\$140.6

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
*(In millions)*  
*(Unaudited)*

<b>Successor KAR Holdings</b>							
	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
<b>Balance at April 20, 2007 – Successor</b>	10.7	\$0.1	\$1,045.3	\$ --	\$ --	\$ --	\$1,045.4
Comprehensive income:							
Net income		--	--	4.6	--	--	4.6
Other comprehensive income, net of tax:							
Foreign currency translation		--	--	--	--	15.1	15.1
Comprehensive income		--	--	4.6	--	15.1	19.7
Capital contributions		--	2.9	--	--	--	2.9
<b>Balance at June 30, 2007 – Successor</b>	<b>10.7</b>	<b>\$0.1</b>	<b>\$1,048.2</b>	<b>\$4.6</b>	<b>\$ --</b>	<b>\$15.1</b>	<b>\$1,068.0</b>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Consolidated Statements of Cash Flows**  
*(In millions)*  
*(Unaudited)*

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA January 1 – April 19, 2007	IAAI January 1 – April 19, 2007	ADESA January 1 – June 30, 2006	IAAI December 26, 2005 – June 25, 2006
<b>Operating activities</b>					
Net income (loss)	\$4.6	\$21.3	(\$0.3)	\$72.4	(\$0.6)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>					
Depreciation and amortization	27.1	15.9	7.9	21.8	10.6
Bad debt expense	0.4	--	--	2.4	--
Deferred income taxes	--	0.9	1.3	2.0	2.0
Stock-based compensation expense	--	6.4	2.6	3.4	1.2
Other non-cash, net	<u>2.8</u>	<u>1.6</u>	<u>0.4</u>	<u>1.7</u>	<u>1.5</u>
	34.9	46.1	11.9	103.7	14.7
<b>Changes in operating assets and liabilities, net of acquisitions:</b>					
Finance receivables held for sale	1.7	(15.1)	--	(20.0)	--
Retained interests in finance receivables sold	(2.9)	(2.5)	--	(6.8)	--
Trade receivables and other assets	54.1	(164.6)	0.4	(60.4)	(1.8)
Accounts payable and accrued expenses	<u>(28.9)</u>	<u>150.2</u>	<u>4.6</u>	<u>39.2</u>	<u>6.8</u>
<b>Net cash provided by operating activities</b>	58.9	14.1	16.9	55.7	19.7
<b>Investing activities</b>					
Net increase (decrease) in finance receivables held for investment	7.9	(14.0)	--	(30.6)	--
Acquisition of businesses, net of cash acquired	(0.6)	--	(0.5)	(30.0)	(18.4)
Purchases of property, equipment and computer software	(13.7)	(11.3)	(5.4)	(16.9)	(8.1)
Purchase of other intangibles	(0.1)	(0.1)	--	(0.4)	--
Proceeds from the sale of property, equipment and computer software	--	--	0.1	--	0.3
Equity investments	--	--	--	(12.5)	--
Transfer from (to) restricted cash	<u>0.8</u>	<u>(9.0)</u>	<u>--</u>	<u>(1.3)</u>	<u>--</u>
<b>Net cash used by investing activities</b>	(5.7)	(34.4)	(5.8)	(91.7)	(26.2)
<b>Financing activities</b>					
Net increase in book overdrafts	21.3	46.2	--	27.8	--
Net increase in borrowings from lines of credit	--	--	--	--	7.0
Payments on long-term debt	--	(7.5)	(0.5)	(15.0)	(0.6)
Payments on capital leases	--	--	(0.1)	--	(0.2)
Payments for debt issuance costs	--	--	--	--	(0.1)
Proceeds from issuance of common stock under stock plans	--	15.0	--	6.0	--
Contributed capital	2.9	--	--	--	0.1
Dividends paid to stockholders	--	--	--	(13.4)	--
Excess tax benefits from stock-based Compensation	--	3.0	--	--	--
Repurchase of common stock	<u>--</u>	<u>(0.2)</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net cash provided by (used by) financing activities</b>	24.2	56.5	(0.6)	5.4	6.2
Effect of exchange rate changes on cash	<u>0.2</u>	<u>(0.1)</u>	<u>--</u>	<u>0.5</u>	<u>--</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	77.6	36.1	10.5	(30.1)	(0.3)
Cash and cash equivalents at beginning of period	<u>232.7</u>	<u>195.7</u>	<u>14.0</u>	<u>240.2</u>	<u>25.9</u>
Cash and cash equivalents at end of period	<u>\$310.3</u>	<u>\$231.8</u>	<u>\$24.5</u>	<u>\$210.1</u>	<u>\$25.6</u>

See notes to consolidated financial statements

**KAR Holdings, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 – Organization and Other Matters**

***Defined Terms***

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

- “ADESA” refers to ADESA, Inc. and its subsidiaries;
- “AFC” refers to Automotive Finance Corporation, an Indiana corporation that is a wholly owned subsidiary of ADESA;
- the “Equity Sponsors” refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P., which own through their respective affiliates substantially all of KAR Holdings equity;
- “IAAI” refers to Insurance Auto Auctions, Inc. and its subsidiaries;
- “KAR Holdings” or the “Company” refers to KAR Holdings, Inc., a Delaware corporation that is a wholly owned subsidiary of KAR LLC. KAR Holdings is the parent company of ADESA and IAAI;
- “KAR LLC” refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors and management of the Company;

***Merger Transactions and Corporate Structure***

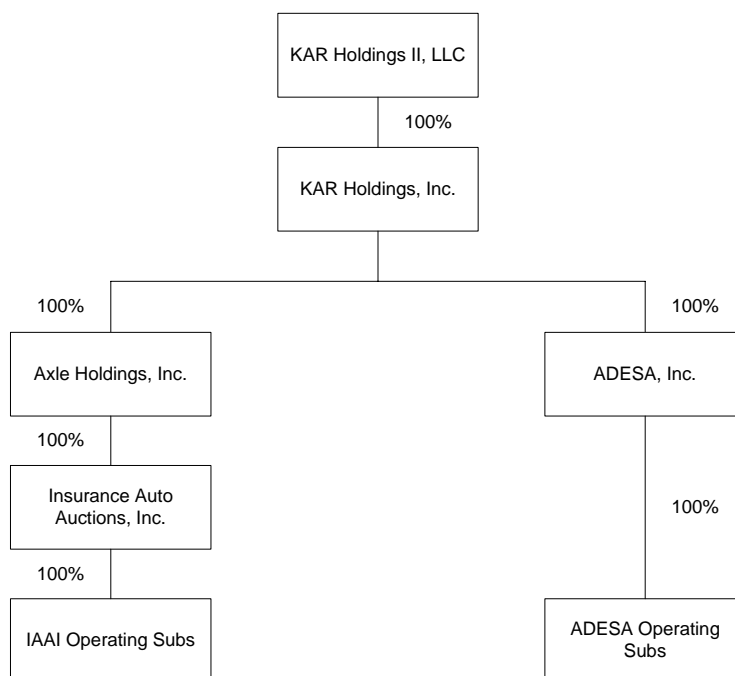
On December 22, 2006, ADESA entered into a definitive merger agreement to be acquired by a group of private equity funds consisting of affiliates of Kelso & Company, GS Capital Partners, ValueAct Capital and Parthenon Capital. The merger occurred on April 20, 2007 and as part of the agreement, Insurance Auto Auctions, Inc., a leading provider of automotive salvage auction and claims processing services in the United States, was combined with ADESA. Both ADESA and IAAI became wholly owned subsidiaries of KAR Holdings which is owned by KAR LLC.

The following transactions occurred in connection with the merger:

- Approximately 90.8 million shares of ADESA’s outstanding common stock converted into the right to receive \$27.85 per share in cash;
- Approximately 3.4 million outstanding options to purchase shares of ADESA’s common stock were cancelled in exchange for payments in cash of \$27.85 per underlying share, less the applicable option exercise price;
- Approximately 0.3 million outstanding restricted stock and restricted stock units of ADESA vested immediately and were paid out in cash of \$27.85 per unit;
- Affiliates of the Equity Sponsors and management contributed to KAR Holdings approximately \$1.1 billion in equity, consisting of approximately \$790.0 million in cash and ADESA, Inc. stock and approximately \$272.4 million of equity interest in IAAI;
- KAR Holdings entered into new senior secured credit facilities, comprised of a \$1,565.0 million term loan facility and a \$300.0 million revolving credit facility. Existing and certain future domestic subsidiaries, subject to certain exceptions, guarantee such credit facilities;
- KAR Holdings issued \$150.0 million Floating Rate Senior Notes due May 1, 2014, \$450.0 million 8.75% Senior Notes due May 1, 2014 and \$425.0 million 10% Senior Subordinated Notes due May 1, 2015.

The following chart presents the corporate structure after giving effect to the merger transactions:

**KAR Holdings, Inc.**  
**Notes to Consolidated Financial Statements**



***Use of Proceeds***

The net proceeds from the equity sponsors and financings were used to: (a) fund the cash consideration payable to ADESA stockholders, ADESA option holders and ADESA restricted stock and restricted stock unit holders under the merger agreements; (b) repay any outstanding principal and accrued interest under ADESA’s existing credit facility and notes as of the closing of the merger; (c) repay any outstanding principal and accrued interest under IAAI’s existing credit facility and notes as of the closing of the merger; (d) pay related transaction fees and expenses; and (e) establish IAAI’s rollover equity.

***Fair Value of Assets Acquired and Liabilities Assumed***

The merger was recorded in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations*. The allocation of the purchase price is preliminary as the receipt and analysis of the final appraisals and valuations from third party valuation experts are pending. The estimates are based on preliminary valuations and information currently available. Management believes the preliminary valuations and estimates are a reasonable basis for the allocation of the purchase price. However, the analysis of the fair value estimates is continuing to be refined in accordance with SFAS 141. As additional information becomes available and as actual results vary from these estimates, the underlying assets or liabilities may need to be adjusted materially, thereby impacting intangible asset and related amortization estimates, as well as goodwill. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

Current assets	\$1,066.5
Property, plant and equipment	779.7
Goodwill	1,465.7
Other intangible assets	1,514.5
Debt issue costs	89.3
Other assets	54.7
Total assets	\$4,970.4
Current liabilities	\$606.8
Term loan B	1,565.0
Senior notes	600.0
Senior subordinated notes	425.0
Deferred income tax liabilities	655.7
Other liabilities	72.4
Total liabilities	\$3,924.9
Net assets acquired	\$1,045.5

**KAR Holdings, Inc.**  
**Notes to Consolidated Financial Statements**

***Significant Items Affecting Comparability***

The merger transactions resulted in a new basis of accounting under SFAS No. 141. This change creates many differences between reporting for KAR Holdings post merger as successor, and ADESA and IAAI independently pre-merger as predecessor companies. The predecessors' financial data for periods ending on or prior to April 19, 2007, generally will not be comparable to the successor financial data for periods after that date. The merger resulted in KAR Holdings having an entirely new capital structure, which results in significant differences between the predecessors and successor in the statements of stockholders' equity. In addition, the successor incurred debt issuance costs and \$2,590 million of debt in connection with the merger. The \$662.6 million of debt related to the predecessors' credit facilities and notes was paid off in connection with the merger (\$318.0 million for ADESA and \$344.6 million for IAAI). As a result, interest expense, debt and debt issuance costs will not be comparable between the predecessors and the successor companies. Certain adjustments have been made to increase or decrease the carrying amount of assets and liabilities as a result of preliminary estimates and certain reasonable assumptions, which, in certain instances, has resulted in changes to amortization and depreciation expense amounts. The final valuations are not yet complete; as such, the allocation of purchase price has not been completed and further adjustments to the preliminary allocations, which could be material, may be made in subsequent periods.

***Business and Nature of Operations***

The network of 54 ADESA whole car auctions and 137 IAAI salvage vehicle auctions facilitates the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit Internet buyers to participate in physical auctions. ADESA and IAAI are leading, national providers of wholesale and salvage vehicle auctions and related vehicle redistribution services for the automotive industry in North America. Redistribution services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA and IAAI facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the companies generally do not take title to or ownership of the 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 is the second largest used vehicle auction network in North America, based upon the number of used vehicles sold through auctions annually, and also provides services such as inbound and outbound logistics, reconditioning, vehicle inspection and certification, titling, administrative and salvage recovery services. Through its wholly owned subsidiary, AFC, ADESA also provides short-term inventory-secured financing, known as floorplan financing, to used vehicle dealers. ADESA is able to serve the diverse and multi-faceted needs of its customers through the wide range of services offered at its facilities.

IAAI is the second largest provider of salvage vehicle auctions and related services in North America. The salvage auctions facilitate the redistribution of damaged vehicles that are designated as total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound and outbound logistics, inspections, evaluations, titling and settlement administrative services.

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing is provided through 89 loan production offices located throughout North America. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from ADESA auctions, independent auctions, auctions affiliated with other auction networks and non-auction purchases.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. In the opinion of management, the consolidated financial statements reflect all adjustments considered necessary (consisting of normal recurring accruals) for a fair statement of the Company's financial results for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. A listing of the Company's critical accounting estimates is described in the "Critical Accounting Estimates" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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**Notes to Consolidated Financial Statements**

**Note 3 – Long-Term Debt**

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

	<b>Interest Rate</b>	<b>Maturity</b>	<b>Successor June 30, 2007</b>
Term Loan B	LIBOR + 2.25%	10/19/2013	<b>\$1,565.0</b>
\$300 million revolving credit facility	LIBOR + 2.25%	04/19/2013	--
Floating rate senior notes	LIBOR + 4.00%	05/01/2014	<b>150.0</b>
Senior notes	8 <sup>3</sup> / <sub>4</sub> %	05/01/2014	<b>450.0</b>
Senior subordinated notes	10%	05/01/2015	<b>425.0</b>
Capital lease obligation	5.0%	12/01/2013	<b><u>34.5</u></b>
Total debt			<b>2,624.5</b>
Less current portion of long-term debt			<b><u>15.6</u></b>
Long-term debt			<b><u>\$ 2,608.9</u></b>

***Credit Facilities***

As part of the merger transactions, the Company entered into new senior secured credit facilities, comprised of a \$300.0 million revolving credit facility and a \$1,565.0 million term loan. The senior secured credit facilities are guaranteed by KAR Holdings, LLC and each of the Company's direct and indirect present and future material domestic subsidiaries, subject to certain exceptions (excluding among others, AFC Funding Corporation). The senior secured credit facilities are secured by a perfected first priority security interest in, and mortgages on, all present and future tangible and intangible assets of the Company and the guarantors, and the capital stock of the Company and each of its direct and indirect material domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries.

The term loan is payable in quarterly installments equal to 0.25% of the initial aggregate principal amount, beginning September 30, 2007, with the balance payable at maturity. The senior secured credit facilities are 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, 2008, any excess cash flow, subject to reduction based on the Company's achievement of specified consolidated senior leverage ratios as defined in the credit agreement.

Under the terms of the credit agreement, interest rates and borrowings are based upon, at the Company's option, LIBOR Eurodollar or prime rates. The terms of the agreement include a commitment fee based on unutilized amounts, letter of credit fees and agency fees. The agreement includes covenants that, among other things, limit or restrict the Company's and its subsidiaries' abilities to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, including the senior notes, pay dividends, create liens, make equity or debt investments, make acquisitions, modify the terms of the indenture, engage in mergers, make capital expenditures and engage in certain transactions with affiliates. The agreement also requires the Company to have at least 50% of the aggregate principal amount of the notes and the term loan subject to either a fixed interest rate or interest rate protection for a period of not less than two years from the date of entering into the interest rate hedge agreement. In addition, the senior secured credit facilities are subject to a senior secured leverage ratio test. The Company is not required to assess compliance with the covenants until December 31, 2007.

The revolver was made for working capital and general corporate purposes. There were no borrowings under the revolver at the time of the merger or during the period April 20, 2007 through June 30, 2007, although the Company did have outstanding letters of credit in the aggregate amount of \$17.5 million as of June 30, 2007.

***Senior Notes***

As part of the merger transactions, the Company issued \$450.0 million of 8 <sup>3</sup>/<sub>4</sub> % senior notes and \$150.0 million of floating rate senior notes both of which are due May 1, 2014. In addition, the Company issued \$425.0 of 10% senior subordinated notes due May 1, 2015. The floating rate notes are non-callable for two years, after which they are 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 commencing August 1, 2007. The fixed rate notes are non-callable for three years, after which they are callable at a premium declining ratably to par at the end of year six. Interest on both the fixed rate notes and the senior subordinated notes is payable semi-annually in arrears, commencing November 1, 2007.

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The 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 indentures.

**Future Principal Payments**

At June 30, 2007 aggregate future principal payments on long-term debt are as follows (*in millions*):

2007	\$7.8
2008	15.6
2009	15.6
2010	15.6
2011	15.6
Thereafter	2,554.3
	\$2,624.5

**Predecessor Long-Term Debt**

A portion of the proceeds from the merger transactions including the debt financing and the equity contribution from the sponsors were used to repay substantially all of the existing indebtedness (including accrued interest and associated breakage costs) of ADESA and IAAI.

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

	Interest Rate	Maturity	Predecessor	
			ADESA December 31, 2006	IAAI December 31, 2006
Term Loan A	LIBOR + 1.00%	06/30/2010	\$105.0	\$ --
Senior secured term loan	LIBOR + 2.50%	05/19/2012	--	194.5
\$350 million revolving credit facility	LIBOR + 1.00%	06/30/2010	88.0	--
\$50 million revolving credit facility	LIBOR + 2.75%	05/19/2011	--	--
Capital lease obligation	5.0%	12/01/2013	34.5	--
Senior notes	11%	04/01/2013	--	150.0
Senior subordinated notes	7 <sup>5</sup> / <sub>8</sub> %	06/15/2012	125.0	--
Canadian line of credit	Prime + 0.25%	12/31/2007	--	--
Total debt			352.5	344.5
Less current portion of long-term debt			30.0	1.9
Long-term debt			\$ 322.5	\$ 342.6

**Note 4 - Derivatives**

Both predecessor companies were exposed to interest rate fluctuations on floating rate credit facilities. ADESA maintained an interest rate swap and IAAI maintained interest rate caps. ADESA terminated its \$40 million interest rate swap on March 30, 2007, in anticipation of the then pending merger and early repayment of its outstanding debt. IAAI terminated its 6.0% interest rate caps on \$100.0 million of outstanding principal on April 20, 2007.

The Credit Agreement of KAR Holdings requires that at least 50% of the aggregate principal amount of the notes and the term loans is subject to either a fixed interest rate or interest rate protection for a period of not less than 2 years. As such, the Company uses an interest rate swap agreement to manage its exposure to interest rate movements and to reduce borrowing costs. In July 2007, the Company entered into an interest rate swap agreement with a notional amount of \$800 million to manage its exposure to interest rate movements on its variable rate Term Loan B credit facility. The interest rate swap agreement matures on June 30, 2009 and effectively results in a fixed LIBOR interest rate of 5.345% on \$800 million of the Term Loan B credit facility.

The Company has designated its interest rate swap agreement as a cash flow hedge. The fair value of the interest rate swap agreement will be estimated using pricing models widely used in financial markets and will represent the estimated amount the Company would receive or pay to terminate the agreement at the reporting date. Changes in the fair value of the interest rate

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swap agreement designated as a cash flow hedge will be recorded in “Other comprehensive income” in future periods. Unrealized gains or losses on interest rate swap agreements will be included as a component of “Accumulated other comprehensive income” in future periods.

**Note 5 – Comprehensive Income**

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

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA April 1 – April 19, 2007	IAAI March 28 – April 19, 2007	ADESA April 1 – June 30, 2006	IAAI March 27 – June 25, 2006
Net income (loss)	\$4.6	(\$16.7)	(\$0.7)	\$36.1	(\$0.1)
Other comprehensive income, net of tax					
Foreign currency translation gain (loss)	15.1	5.8	--	11.6	--
Comprehensive income (loss)	\$19.7	(\$10.9)	(\$0.7)	\$47.7	(\$0.1)

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA January 1 – April 19, 2007	IAAI January 1 – April 19, 2007	ADESA January 1 – June 30, 2006	IAAI December 26, 2005 – June 25, 2006
Net income (loss)	\$4.6	\$21.3	(\$0.3)	\$72.4	(\$0.6)
Other comprehensive income, net of tax					
Foreign currency translation gain (loss)	15.1	8.4	--	10.5	--
Unrealized gain (loss) on interest rate swaps	--	(0.1)	--	0.2	--
Comprehensive income (loss)	\$19.7	\$29.6	(\$0.3)	\$83.1	(\$0.6)

The composition of “Accumulated other comprehensive income” at June 30, 2007 was representative of foreign currency translation adjustments of \$15.1 million. The composition of “Accumulated other comprehensive income” at December 31, 2006 for ADESA was the net unrealized gains or losses on interest rate swaps of \$0.1 million and foreign currency translation adjustments of \$49.5 million. The composition of “Accumulated other comprehensive income” at December 31, 2006 for IAAI was representative of an insignificant change in the fair value of an interest rate cap.

**Note 6 – Acquisitions**

**2007 Acquisitions**

In the first quarter of 2007, IAAI acquired Permian Basin Salvage Pool in Odessa, Texas. The acquisition complements existing coverage in this market. Financial results for this acquisition have been included in IAAI’s consolidated financial statements since the date of acquisition. The aggregate purchase price of this acquisition was approximately \$0.6 million. As a result of the merger transactions, no purchase price allocation was completed. Pro forma financial results reflecting the acquisition were not materially different from those reported.

**Note 7 – Stock Plans**

**Predecessor ADESA Stock Plans**

Prior to the merger transactions, ADESA had an equity and incentive plan under which employees were awarded stock options, restricted stock and other stock-based awards. As a result of the merger transactions, all outstanding options, restricted stock and restricted stock units became fully vested on the date of the merger. As such, approximately 3.4 million outstanding options to purchase shares of ADESA’s common stock were cancelled in exchange for payments in cash of \$27.85 per underlying share, less the applicable option exercise price, resulting in net proceeds to holders of \$18.6 million. In addition, approximately 0.3 million outstanding restricted stock and restricted stock units were cancelled in exchange for

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payments in cash of \$27.85 per underlying share. The accelerated vesting of the options resulted in additional stock-based compensation expense of approximately \$2.0 million and the accelerated vesting of restricted stock and restricted stock units resulted in additional stock-based compensation expense of approximately \$2.8 million. This additional \$4.8 million is included in the "Transaction expenses" line item of the Consolidated Income Statement for the predecessor ADESA from April 1 – April 19, 2007.

***Predecessor IAAI Stock Plans***

Prior to the merger transactions, IAAI was a subsidiary of Axle Holdings, Inc. ("Axle Holdings"), which in turn was a subsidiary of Axle Holdings II, LLC ("LLC"). Axle Holdings maintained the Axle Holdings, Inc. Stock Incentive Plan to provide equity incentive benefits to the IAAI employees. Under the Axle Holdings plan, service options and exit options were awarded. The service options vest in three equal annual installments from the grant date based upon service with Axle Holdings and its subsidiaries. The exit options vest upon a change in equity control of the LLC. In connection with the completion of the merger transactions, approximately 0.6 million options to purchase shares of Axle Holdings, Inc. stock will be converted into approximately 0.2 million options to purchase shares of KAR Holdings; these converted options will have the same terms and conditions as are applicable to the options to purchase shares of Axle Holdings, Inc.

The LLC also maintained two types of profit interests, operating units and value units, which were held by certain designated employees of IAAI. Upon an exit event as defined by the LLC operating agreement, holders of the profit interests receive a cash distribution from the LLC. The operating units vest in twelve equal quarterly installments from the date of grant based upon service and the value units vest upon a change in equity control of the LLC. In connection with the completion of the merger transactions, a total of approximately 0.6 million operating and value units maintained by the LLC will be converted into a total of approximately 0.2 million operating and value units of KAR LLC; these converted units will have the same terms and conditions as are applicable to the units of the LLC.

***Successor Stock Plans***

***KAR Holdings, Inc. Stock Incentive Plan***

The Company adopted the KAR Holdings, Inc. Stock Incentive Plan, "the Plan" in May 2007. The Plan is intended to provide equity incentive benefits to the Company employees. The maximum number of shares that may be issued pursuant to awards under the Plan is approximately 0.8 million. The Plan provides for the grant of incentive stock options and non-qualified stock options and restricted stock.

The Plan provides two types of stock options: service-related options, which will vest in four equal installments from the date of grant based upon the passage of time, and performance-related "exit" options, which will generally 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 value of the options 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 Holdings subject to an internal rate of return minimum at the time of change in equity control. All vesting criteria is subject to continued employment with KAR LLC or affiliates thereof. Options may be granted under the Plan at an exercise price of not less than the fair market value of a share of KAR Holdings 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 and restricted stock shall become fully vested and cashed out. In August 2007, the Company granted approximately 0.2 million service options and 0.5 million exit options, with an exercise price of \$100 per share, under the Plan.

Service options are accounted as equity awards and, as such, compensation expense is 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. As the ultimate exercisability of the exit options is contingent upon an event (specifically, a change of control), the compensation expense related to the exit options will not be recognized until such an event is consummated.

***KAR LLC Override Units***

KAR LLC owns 100% of the outstanding shares of KAR Holdings. The KAR LLC operating agreement provides for override units in the LLC to be granted and held by certain designated employees of the Company. Upon an exit event as defined by the LLC operating agreement, holders of the override units will receive a cash distribution from KAR LLC. The override units have a contractual term of ten years.

Two types of override units 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 vest upon a change in equity control of KAR LLC. The number of value units ultimately granted will be determined based on the strike

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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 Holdings subject to an internal rate of return minimum at the time of change in equity control.

There were approximately 0.1 million operating units awarded and 0.4 million value units awarded to employees of the Company in August 2007 with a strike price equal to \$100 for the operating units. 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 graded vesting attribution method. However, no compensation expense will be recognized on the value units until a change in equity control is consummated as exercisability and the number of units to be received is contingent upon an event (specifically change in control).

**Note 8 – Goodwill and Other Intangible Assets**

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. At June 30, 2007, there was \$1,470.3 million of goodwill recorded on the Company's Consolidated Balance Sheet that was recorded as a result of the merger transactions. The analysis of the fair value estimates is continuing to be refined in accordance with SFAS 141. As additional information becomes available and as actual results vary from these preliminary estimates, the underlying assets or liabilities may need to be adjusted materially, thereby impacting intangible asset and amortization estimates, as well as goodwill.

Goodwill will be tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. The test for impairment involves the use of estimates related to the fair values of the Company's three reporting units (which consist of the Company's three operating segments: ADESA Auctions, IAAI and AFC) based on projected discounted cash flows. If the fair value is calculated to be less than the carrying amount, an impairment charge is recorded in the period identified.

Goodwill and other intangibles consisted of the following for the periods presented (*in millions*):

		<b>Successor</b>		
		<b>June 30, 2007</b>		
<b>Useful Lives (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Carrying Value</b>	
Goodwill	Indefinite	<b>\$1,470.3</b>	<b>\$ --</b>	<b>\$1,470.3</b>
Other intangible assets	Various	<b>\$1,517.0</b>	<b>(\$17.0)</b>	<b>\$1,500.0</b>
		<b>Predecessor – ADESA</b>		
		<b>December 31, 2006</b>		
<b>Useful Lives (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Carrying Value</b>	
Goodwill	Indefinite	\$557.8	\$ --	\$557.8
Customer relationships	7 – 25	\$37.2	(\$8.2)	\$29.0
Computer software	3 – 7	51.4	(31.8)	19.6
Other	1 – 10	<u>2.2</u>	<u>(1.8)</u>	<u>0.4</u>
Total other intangible assets		<u>\$90.8</u>	<u>(\$41.8)</u>	<u>\$49.0</u>
		<b>Predecessor – IAAI</b>		
		<b>December 31, 2006</b>		
<b>Useful Lives (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Carrying Value</b>	
Goodwill	Indefinite	\$241.3	\$ --	\$241.3
Supplier relationships	15 – 20	\$133.4	(\$9.2)	\$124.2
Trade names	15	14.9	(1.6)	13.3
Software	6	13.5	(3.6)	9.9
Covenants not to compete	1 – 5	<u>0.8</u>	<u>(0.7)</u>	<u>0.1</u>
Total other intangible assets		<u>\$162.6</u>	<u>(\$15.1)</u>	<u>\$147.5</u>

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**Note 9 – Property and Equipment**

Property and equipment consisted of the following for the periods presented (*in millions*):

	<u>Successor</u>	<u>Predecessor</u>	
	<u>June 30, 2007</u>	<u>ADESA December 31, 2006</u>	<u>IAAI December 31, 2006</u>
Land	\$253.2	\$212.1	\$5.1
Buildings	232.9	250.3	8.7
Land improvements	111.8	153.7	--
Building and leasehold improvements	104.1	47.8	56.2
Furniture, fixtures and equipment	59.1	96.0	30.4
Vehicles	14.0	10.3	--
Construction in progress	<u>20.7</u>	<u>13.7</u>	<u>--</u>
	795.8	783.9	100.4
Accumulated depreciation	<u>(10.1)</u>	<u>(186.8)</u>	<u>(20.2)</u>
Property and equipment, net	<u>\$785.7</u>	<u>\$597.1</u>	<u>\$80.2</u>

As discussed in Note 1, in connection with the merger transactions, the property and equipment of the successor was revalued at the fair value based on preliminary estimates and assumptions, resulting in adjusted basis, and the accumulated depreciation was eliminated.

**Note 10 – Trade Receivables**

The following table provides a summary of trade receivables for the periods indicated:

	<u>Successor</u>	<u>Predecessor</u>	
	<u>June 30, 2007</u>	<u>ADESA December 31, 2006</u>	<u>IAAI December 31, 2006</u>
Trade receivables, gross	\$372.9	\$197.7	\$57.1
Allowance for doubtful accounts	<u>6.0</u>	<u>4.9</u>	<u>0.5</u>
Trade receivables, net of allowance	<u>\$366.9</u>	<u>\$192.8</u>	<u>\$56.6</u>

**Note 11 – 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. In conjunction with the merger transaction, AFC and AFC Funding Corporation amended their securitization agreement on April 20, 2007. The agreement expires on April 20, 2012. The agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of up to a maximum of \$750 million in undivided interests in certain eligible finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of \$600 million and \$550 million at June 30, 2007 and December 31, 2006, respectively. Receivables that AFC Funding sells to the bank conduit facility qualify for sales accounting for financial reporting purposes pursuant to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, and as a result are not reported on the Company’s Consolidated Balance Sheet.

At June 30, 2007, AFC managed total finance receivables of \$846.5 million, of which \$741.7 million had been sold without recourse to AFC Funding Corporation. At December 31, 2006, AFC managed total finance receivables of \$775.9 million, of which \$693.0 million had been sold without recourse to AFC Funding Corporation. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling \$535.0 million and \$501.0 million at June 30, 2007 and December 31, 2006, respectively. Finance receivables include \$52.9 million and \$42.6 million classified as held for sale and \$125.5 million and \$162.7 million classified as held for investment at June 30, 2007 and December 31, 2006, respectively. AFC’s allowance for losses of \$2.3 million and \$2.0 million at June 30, 2007 and December 31, 2006, respectively, include an estimate of losses for finance receivables held for investment. Additionally, accrued liabilities of \$4.3 million and \$3.9 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at June 30,

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2007 and December 31, 2006, respectively. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of ADESA's credit facility. At June 30, 2007, the Company was in compliance with the covenants contained in the securitization agreement.

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 table provides a summary of finance receivables for the periods indicated:

	<b>Successor</b>	<b>Predecessor</b>
	<b>June 30,</b>	<b>ADESA</b>
	<b>2007</b>	<b>December 31,</b>
	<b>2006</b>	<b>2006</b>
Finance receivables, gross	<b>\$236.5</b>	\$205.3
Allowance for credit losses	<u><b>2.3</b></u>	<u>2.0</u>
Finance receivables, net of allowance	<u><b>\$234.2</b></u>	<u>\$203.3</u>

**Note 12 – Income Taxes**

On January 1, 2007, the Predecessor companies, ADESA and IAAI, adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No 109* ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes 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. As a result of adopting FIN 48, the Predecessor ADESA and Predecessor IAAI companies recorded changes in liabilities of \$1.7 million and (\$0.1) million, respectively, and a corresponding change in retained earnings and goodwill, respectively.

Subsequent to the adoption of FIN 48, the Predecessor ADESA and Predecessor IAAI had total unrecognized tax benefits of \$15.7 million and \$0.2 million, respectively, at January 1, 2007. The amount of unrecognized tax benefits at January 1, 2007, that if recognized, would affect the effective tax rate were \$15.7 million and \$0, respectively.

As a result of the merger, the Predecessor ADESA and Predecessor IAAI had unrecognized tax benefits at April 19, 2007 of \$16.2 million and \$0.2 million, respectively that if recognized, would not affect the effective tax rate.

The Company records interest and penalties associated with the uncertain tax positions within its provision for income taxes on the income statement. As of January 1, 2007, the Predecessor ADESA and Predecessor IAAI companies had reserves totaling \$2.9 million and \$0.2 million, respectively, associated with interest and penalties, net of tax.

The provision for income taxes involves a significant amount of 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 the Company. In addition, U.S. and non-U.S. tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. In the normal course of business the Company is subject to examination by taxing authorities in the U.S. and Canada. In general, the examination of the Company's material tax returns is completed for the years prior to 2000.

The income taxes payable at June 30, 2007 are based on the expected tax rate for the predecessor and successor periods. Expenses were incurred in connection with the merger transaction that are not deductible for income tax purposes. Deferred tax liabilities of \$557.4 million were created for revalued and new assets established in connection with the merger. The deferred tax liabilities will decrease over the life of these new and revalued assets.

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**Note 13 – Segment Information**

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, requires reporting of segment information that is consistent with the manner in which management operates and views the Company. Prior to April 19, 2007, ADESA, Inc.'s operations were grouped into three operating segments: used vehicle auctions, Impact salvage auctions and AFC. These three operating segments were aggregated into two reportable business segments: Auction Services Group (used vehicle auctions and Impact salvage auctions) and Dealer Services Group (AFC and related businesses). Prior to April 19, 2007, IAAI operated in a single business segment.

As part of the merger transaction, KAR Holdings established three reportable business segments: ADESA Auctions, IAAI and AFC. ADESA's Impact salvage auctions operating segment was combined with IAAI. These reportable segments offer different services and are managed separately based on the fundamental differences in their operations.

ADESA Auctions encompasses all wholesale auctions throughout North America (U.S. and Canada). ADESA Auctions relates to used vehicle remarketing, whether it be auction services, remarketing, or make ready services and all are interrelated, synergistic elements along the auto remarketing chain.

IAAI encompasses all salvage auctions throughout North America (U.S. and Canada). IAAI provides insurance companies and other vehicle suppliers cost-effective salvage processing solutions, including selling total loss and recovered theft vehicles. As such, IAAI relates to total loss vehicle remarketing, whether its 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 value-added ancillary services and products. AFC conducts business primarily at or near wholesale used vehicle auctions in the U.S. 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 the corporate management team, certain human resources, information technology and accounting costs, and incremental insurance, treasury, legal and risk management costs. Holding company interest includes the interest incurred on the corporate debt structure. Costs incurred at the holding company are not allocated to the three business segments.

**KAR Holdings, Inc.**  
**Notes to Consolidated Financial Statements**

Financial information regarding the KAR Holdings' reportable segments is set forth below for the period April 20 – June 30, 2007 (in millions):

	ADESA Auctions	IAAI	AFC	Holding Company	Consolidate d
Operating revenues	\$190.9	\$90.7	\$28.5	\$ --	\$310.1
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	104.2	58.9	6.1	--	169.2
Selling, general and administrative	38.5	11.7	3.3	10.3	63.8
Depreciation and amortization	<u>12.4</u>	<u>9.2</u>	<u>4.7</u>	<u>0.8</u>	<u>27.1</u>
Total operating expenses	<u>155.1</u>	<u>79.8</u>	<u>14.1</u>	<u>11.1</u>	<u>260.1</u>
Operating profit (loss)	35.8	10.9	14.4	(11.1)	50.0
Interest (income) expense, net	(0.1)	--	--	44.0	43.9
Other (income) expense, net	<u>(2.9)</u>	<u>(0.1)</u>	<u>0.4</u>	<u>1.2</u>	<u>(1.4)</u>
Income (loss) from continuing operations before income taxes	38.8	11.0	14.0	(56.3)	7.5
Income taxes	<u>14.8</u>	<u>4.3</u>	<u>5.4</u>	<u>(21.7)</u>	<u>2.8</u>
Income (loss) from continuing operations	<u>\$24.0</u>	<u>\$6.7</u>	<u>\$8.6</u>	<u>(\$34.6)</u>	<u>\$4.7</u>
Assets	<u>\$1,820.2</u>	<u>\$717.0</u>	<u>\$494.3</u>	<u>\$1,929.9</u>	<u>\$4,961.4</u>

**Note 14 – Related Party Transactions**

The Equity Sponsors own the controlling interest in KAR LLC. Under the terms of the financial advisory agreements between the Equity Sponsors and KAR Holdings, upon completion of the merger and contribution, KAR Holdings (1) paid the Equity Sponsors a total fee of \$34.7 million and (2) commenced paying an annual financial advisory fee of \$3.5 million, payable quarterly in advance to the Equity Sponsors (with the first such fee, prorated for the remainder of the then-current quarter, paid at the closing of the merger), for services to be provided by each of the Equity Sponsors to KAR Holdings. The ongoing financial advisory fee will be paid to the Equity Sponsors pursuant to the terms contained in the financial advisory agreements.

Additionally, the financial advisory agreements provide that KAR Holdings 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).

**Note 15 – Commitments and Contingencies**

The Company is 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. The Company accrues 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. Accruals for contingencies including litigation and environmental matters are included in "Other accrued expenses" and "Other liabilities" at undiscounted amounts and generally 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 become available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on the Company's operating results in that period. Legal fees are expensed as incurred.

**KAR Holdings, Inc.**  
**Notes to Consolidated Financial Statements**

The Company has accrued, as appropriate, for environmental remediation costs anticipated to be incurred at certain of its auction facilities. Liabilities for environmental matters included in "Other accrued expenses" and "Other liabilities" were \$2.0 million at June 30, 2007. No amounts have been accrued as receivables for potential reimbursement or recoveries to offset this liability. Liabilities for environmental matters included in "Other accrued expenses" and "Other liabilities" at ADESA were \$3.0 million at December 31, 2006.

The Company stores a significant number of vehicles owned by various customers that are consigned to the Company to be auctioned. The Company is contingently liable for each consigned vehicle until the eventual sale or other disposition; however, the Company is generally not liable for damage related to severe weather conditions, natural disasters or other factors outside of the Company's control. 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, the Company also enters into various other guarantees and indemnities in its relationships with suppliers, service providers, customers and others. These guarantees and indemnifications do not materially impact the Company's financial condition or results of operations, but indemnifications associated with the Company's actions generally have no dollar limitations and currently cannot be quantified.

As noted above, the Company is 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 the Company's financial condition, results of operations or cash flows. Legal and regulatory proceedings which could be material are discussed below.

***ADESA Importation Services, Inc. Litigation***

In January, 2002, Johnny Cooper ("Cooper"), a former manager of ADESA Importation Services, Inc. ("AIS"), a wholly owned subsidiary of the Company, filed suit against the Company and AIS (collectively "ADESA") in the Circuit Court of the State of Michigan, County of Genesee, Case No. 02-72517-CK, alleging breach of contract and breach of other oral agreements related to AIS's purchase of International Vehicle Importers, Inc. in December 2000. Cooper was the controlling shareholder who sold the business to AIS in 2000. AIS filed a counterclaim against Cooper including allegations of breach of contract, breach of fiduciary duty and fraud. In July 2004, the Genesee County Circuit Court entered judgment for Cooper in the amount of \$6,373,812, netting the amount of the damages and awarding the plaintiff prejudgment interest.

In December 2006, following unsuccessful appeal of the verdict through the Michigan Court of Appeals, ADESA filed its application for leave to appeal the decision to the Michigan Supreme Court (Case No. 132630). As a result, the parties filed their respective briefs with the Michigan Supreme Court as to the issue of whether ADESA should be permitted to appeal the lower court decision to the Michigan Supreme Court. In April 2007, the Michigan Supreme Court granted ADESA's application for leave to appeal. The parties initiated settlement discussions as of July 2007. A potential settlement is pending.

The Company discontinued the operations of AIS, its vehicle importation business, in February 2003. At June 30, 2007, the Company has an accrual totaling \$7.3 million (\$5.8 million award plus accrued interest of \$1.5 million) as a result of the jury trial verdict which would be sufficient considering the pending settlement.

***Auction Management Solutions, Inc.***

In March 2005, Auction Management Solutions, Inc. ("AMS") filed a lawsuit against ADESA, Inc. in U.S. District Court for the Northern District of Georgia, Atlanta Division (Civil Action No. 05 CV 0638), alleging infringement of U.S. Patent No. 6,813,612 (the "'612 Patent") which was issued November 2, 2004 and pertains to an audio/video system for streaming instantaneous and buffer free data to and from a live auction site. The AMS complaint was served upon ADESA in July 2005. The complaint seeks unspecified damages and injunctive relief. The Company filed its answer, including its defenses, to the complaint in August 2005. The Company continues to vigorously defend itself against the infringement allegations. The litigation is currently in discovery.

# **Management's Discussion and Analysis** **of Financial Condition and Results of Operations**

## **Forward-Looking Statements**

This report contains forward-looking statements which are subject to certain risks, trends and uncertainties. In particular, statements made in this report 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 “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions identify forward-looking statements. Such statements, including statements regarding the Company’s future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives such as selective relocations, greenfields and acquisitions; the Company’s competitive position; and its continued investment in information technology are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to:

- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes and conversion rates;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- economic conditions including fuel prices and Canadian exchange rate and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- vehicle production including capacity reductions at the major OEM’s;
- the introduction of new competitors;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles and governing the processing of salvage vehicles;
- changes in the market value of vehicles auctioned, including changes in the actual cash value, or ACV, of salvage vehicles;
- competitive pricing pressures;
- costs associated with the acquisition of businesses or technologies;
- litigation developments;
- patent or other intellectual property infringement claims, which could have an impact on the business or operating results due to a disruption in business operations, the incurrence of significant costs and other factors;
- the Company’s ability to successfully implement its business strategies or realize expected cost savings and revenue enhancements;
- the Company’s ability to develop and implement information systems responsive to customer needs;
- business development activities, including acquisitions and integration of acquired businesses;
- weather;
- general business conditions; and
- other risks described from time to time.

Many of these risk factors are outside of the Company’s 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 hereof and the Company does not undertake to update its forward-looking statements.

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

### ***Merger Transactions***

On December 22, 2006, ADESA entered into a definitive merger agreement to be acquired by a group of private equity funds consisting of affiliates of Kelso & Company, GS Capital Partners, ValueAct Capital and Parthenon Capital. The merger occurred on April 20, 2007 and as part of the agreement, Insurance Auto Auctions, Inc., a leading provider of automotive salvage auction and claims processing services in the United States, was combined with ADESA. Both ADESA and IAAI became wholly owned subsidiaries of KAR Holdings which is owned by KAR LLC.

The following transactions occurred in connection with the merger:

- Approximately 90.8 million shares of ADESA's outstanding common stock converted into the right to receive \$27.85 per share in cash, without interest;
- Approximately 3.4 million outstanding options to purchase shares of ADESA's common stock were cancelled in exchange for payments in cash of \$27.85 per underlying share, less the applicable option exercise price;
- Approximately 0.3 million outstanding restricted stock and restricted stock units vested immediately and were paid out in cash of \$27.85 per unit;
- Affiliates of the Equity Sponsors and management contributed to KAR Holdings approximately \$1.1 billion in equity, consisting of approximately \$790.0 million in cash and ADESA, Inc. stock and approximately \$272.4 million of equity interest in IAAI;
- KAR Holdings entered into new senior secured credit facilities, comprised of a \$1,565.0 million term loan facility and a \$300.0 million revolving credit facility. Existing and certain future domestic subsidiaries, subject to certain exceptions, guarantee such credit facilities;
- KAR Holdings issued \$150.0 million Floating Rate Senior Notes due May 1, 2014, \$450.0 million 8.75% Senior Notes due May 1, 2014 and \$425.0 million 10% Senior Subordinated Notes due May 1, 2015.

### ***Use of Proceeds***

The net proceeds from the equity sponsors and financings was used to: (a) fund the cash consideration payable to ADESA shareholders, ADESA option holders and ADESA restricted stock and restricted stock unit holders under the merger agreements; (b) repay any outstanding principal and accrued interest under ADESA's existing credit facility and notes as of the closing of the merger; (c) repay any outstanding principal and accrued interest under IAAI's existing credit facility and notes as of the closing of the merger; (d) pay related transaction fees and expenses; and (e) establish IAAI's rollover equity.

### ***Significant Items Affecting Comparability***

The merger transactions resulted in a new basis of accounting under SFAS No. 141. This change creates many differences between reporting for KAR Holdings post merger, as successor, and ADESA and IAAI independently pre-merger, as predecessor companies. The predecessors' financial data for periods ending on or prior to April 19, 2007, generally will not be comparable to the successor financial data for periods after that date. The merger resulted in KAR Holdings having an entirely new capital structure, which results in significant differences between the predecessors' and successor in the equity sections of the statements. In addition, the successor incurred debt issuance costs and \$2,590 million of debt in connection with the merger. The \$662.6 million of debt related to the predecessors' credit facilities and notes was paid off in connection with the merger (\$318.0 million for ADESA and \$344.6 million for IAAI). As a result, interest expense, debt and debt issuance costs are not comparable between the predecessors and the successor. Certain adjustments have been made to increase or decrease the carrying amount of assets and liabilities as a result of preliminary estimates and certain reasonable assumptions, which, in certain instances, has resulted in changes to amortization and depreciation expense amounts. The final valuations are not yet complete; as such, the allocation of purchase price has not been completed and further adjustments to the preliminary allocations will be made in subsequent periods.

### ***Executive Overview***

#### ***Business***

KAR is the only auction services provider in North America with leading market positions in both the whole car auction and salvage auction markets. The business is divided into three reportable business segments that are integral parts of the vehicle redistribution industry: ADESA Auctions, Insurance Auto Auctions Inc. ("IAAI") and Automotive Finance Corporation ("AFC"). The ADESA Auctions segment consists primarily of ADESA's used vehicle auctions and is the second largest used

vehicle auction network in North America with 54 ADESA sites. ADESA Auctions also provide services such as inbound and outbound logistics, reconditioning, vehicle inspection and certification, titling and administrative services.

The IAAI segment consists of salvage vehicle auctions and related services in North America and is the second largest provider with 137 sites. The salvage auctions facilitate the redistribution of damaged vehicles that are designated as total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound and outbound logistics, inspections, evaluations, titling and settlement administrative services.

The AFC segment is primarily engaged in the business of providing short-term, inventory-secured financing, known as floorplan financing, to independent used vehicle dealers. AFC conducts business at 89 loan production offices in the U.S. 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 the corporate management team, certain human resources, information technology and accounting costs, and incremental insurance, treasury, legal and risk management costs. Holding company interest includes the interest incurred on the corporate debt structure. Costs incurred at the holding company are not allocated to the three business segments.

The Company believes it is well positioned in both the used vehicle auction and salvage auction industries which have demonstrated long-term stability. The Company is one of the top three players in most markets in which it operates in an industry with high barriers (facilities, technology and expertise) to entry. ADESA and IAAI are able to serve the diverse and multi-faceted needs of customers through the wide range of services offered at their facilities. The Company's business model consistently generates substantial operating cash flow, which can be used to fund growth initiatives with minimal inventory risk.

#### ***Industry Outlook and Trends***

The decline in retail used vehicle sales experienced in 2006 has persisted throughout the first half of 2007, as retail used vehicle sales are at the lowest year-to-date levels this decade. This decline has continued to impact demand and used vehicle auction volumes. In addition, new vehicle sales have also experienced a decline through the first half of 2007, which impacts trade-ins and auction volumes. Capacity reductions at the major U.S. OEMs are expected to impact the industry and may result in reduced program vehicles and rental fleet sales. While off-lease vehicles declined in 2006, lease penetration rates have been modestly increasing since 2004 and the Company expects that industry off-lease auction volumes may begin increasing in late 2007.

#### ***Seasonality***

The volume of vehicles sold at the Company's auctions generally fluctuates from quarter to quarter. This seasonality is affected 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 affect 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.

#### ***Results of Operations***

The Company's revenue is derived from auction fees and related services at its whole car and salvage auction facilities and dealer financing fees and net interest income at AFC. Although auction revenues primarily include the auction services and related fees, the Company's related receivables and payables include the value of the vehicles sold. AFC's net revenue consists primarily of securitization income and interest and fee income less provisions for credit losses. Securitization income is primarily comprised of the gain on sale of finance receivables sold, but also includes servicing income, discount accretion, and any change in the fair value of the retained interest in finance receivables sold. Operating expenses for the Company consist of cost of services, selling, general and administrative expenses and depreciation and amortization. Cost of services is composed of payroll and related costs, subcontract services, supplies, insurance, property taxes, utilities, maintenance and lease expense related to the auction sites and loan offices. Cost of services excludes depreciation and amortization. Selling, general and administrative expenses are composed of indirect payroll and related costs, sales and marketing, information technology services and professional fees.

Prior to April 19, 2007, ADESA, Inc.'s operations were grouped into three operating segments: used vehicle auctions, Impact salvage auctions and AFC. These three operating segments were aggregated into two reportable business segments: Auction Services Group (used vehicle auctions and Impact salvage auctions) and Dealer Services Group (AFC and related businesses). Prior to April 19, 2007, IAAI operated in a single business segment. Concurrent with the merger transaction, KAR Holdings established three reportable business segments: ADESA Auctions, IAAI and AFC. ADESA's Impact salvage auctions operating segment was combined with IAAI. For comparative purposes, ADESA Impact's results of operations are included in the IAAI segment for all periods presented below. These reportable segments offer different services, have distinct suppliers and buyers of vehicles and are managed separately based on the fundamental differences in their operations.

## Overview of 2007 Results

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues				
ADESA Auctions	\$242.8	\$214.7	\$478.7	\$437.0
IAAI	120.3	103.3	243.1	209.1
AFC	36.6	36.2	74.4	71.4
Total revenues	399.7	354.2	796.2	717.5
Cost of services*	218.1	191.7	430.1	387.5
Gross profit*	181.6	162.5	366.1	330.0
Selling, general and administrative	84.7	75.7	171.5	155.4
Depreciation and amortization	32.2	16.7	50.9	32.4
Transaction expenses	22.4	--	24.8	--
Loss related to flood	--	0.3	--	3.2
Operating profit	42.3	69.8	118.9	139.0
Interest expense, net	46.6	12.0	60.1	23.7
Other (income) expense	(1.8)	(0.1)	(1.8)	(0.2)
Income (loss) from continuing operations before income taxes	(2.5)	57.9	60.6	115.5
Income taxes	10.2	21.8	34.8	43.6
Income (loss) from continuing operations	(\$12.7)	\$36.1	\$25.8	\$71.9

\* Exclusive of depreciation and amortization

The volume of used vehicles coming to auction continued to increase modestly in the second quarter of 2007. In addition, ADESA's used vehicle conversion percentage increased from 58.2% in the second quarter of 2006 to 60.7% in the second quarter of 2007. However, retail used vehicle sales are at the lowest year-to-date levels this decade and this decline has continued to impact demand and used vehicle auction volumes.

Salvage vehicle supplies were fairly strong throughout the industry in the second quarter of 2007 despite increased fuel prices. The Company believes increased complexity in vehicles contributed to a larger number of insurance claims resulting in a total loss.

For the quarter ended June 30, 2007, the Company reported revenue of \$399.7 million compared with revenue of \$354.2 million for the quarter ended June 30, 2006, an increase of 13%. EBITDA for the quarter ended June 30, 2007 totaled \$76.3 million compared to \$86.6 million for the same period in 2006. Results for the quarter ended June 30, 2007 included \$22.4 million in transaction expenses consisting of legal and professional fees and incremental compensation expense associated with the merger transactions. EBITDA for the second quarter of 2007, excluding transaction costs, increased 14% over the prior year.

For the six months ended June 30, 2007, the Company reported revenue of \$796.2 million compared with revenue of \$717.5 million for the six months ended June 30, 2006, an increase of 11%. EBITDA for the six months ended June 30, 2007 and 2006 totaled \$171.6 million. Results for the six months ended June 30, 2007 included \$24.8 million in transaction expenses consisting of legal and professional fees associated with the merger. Included in the results for the six months ended June 30, 2006, was a \$2.7 million charge related to the correction of certain unreconciled balance sheet differences concealed by a former employee at ADESA's Kitchener, Ontario, auction facility. In addition, the results for the six months ended June 30, 2006 included a \$3.2 million loss related to the flood at IAAI's Grand Prairie, Texas facility. The flood loss consisted of a loss of vehicles and fixed assets as well as costs to clean up the facility. EBITDA for the first half of 2007, excluding transaction

costs, increased 11% over EBITDA for the first half of 2006 excluding the one-time charges described previously in this paragraph.

### **Pro Forma Condensed Segment Results**

The following unaudited pro forma condensed segment results of operations for the three and six months ended June 30, 2007 are based on ADESA and IAAI's unaudited financial statements for the periods from January 1, 2007 to April 19, 2007 and KAR's unaudited financial statements for the period from April 20, 2007 to June 30, 2007 appearing elsewhere in these financial statements, as adjusted to combine these financial statements of ADESA Impact and IAAI on a historical basis and to illustrate the estimated pro forma effects of the merger transactions as if they had occurred on January 1, 2006.

The merger transactions described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Merger Transactions," were completed on April 20, 2007. Pro forma adjustments have been made to the historical combined statement of income for the three and six months ended June 30, 2007 and 2006 as if the merger transactions had been completed on January 1, 2006.

The unaudited pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma condensed segment results are presented for informational purposes only. The unaudited pro forma condensed segment results do not purport to represent what KAR's results of operations would have been had the merger transactions actually occurred on the dates indicated and they do not purport to project KAR's results of operations for any future period.

The unaudited pro forma condensed combined results of operations should be read in conjunction with the information contained in "The Transactions" and the financial statements and related notes thereto, appearing elsewhere in this document. The pro forma adjustments inherent in the segments results presented below include: pro forma interest expense resulting from the new capital structure; pro forma depreciation and amortization expense resulting from the new basis of property and equipment and intangible assets; adjustments to selling and administrative expenses for the annual sponsor advisory fees; and adjustment to write up the finance receivables acquired to fair value. In addition, certain human resources and information technology costs that ADESA had historically allocated to its segments and certain professional fees historically recorded at the segments were reclassified to the holding company for all periods presented.

### **Three Months Ended June 30, 2007**

#### **Pro Forma ADESA Auctions Results**

	<b>Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<i>(In millions except volumes and per vehicle amounts)</i>		
ADESA Auctions revenue	<b>\$242.8</b>	\$214.7
Cost of services*	<b>132.6</b>	113.5
Gross profit*	<b>110.2</b>	101.2
Selling, general and administrative	<b>49.0</b>	44.2
Depreciation and amortization	<b>18.6</b>	18.6
Transaction expenses	--	--
Operating profit	<b>\$42.6</b>	\$38.4

\* Exclusive of depreciation and amortization

#### *Revenue*

Revenue from ADESA Auctions increased \$28.1 million, or 13%, to \$242.8 million for the three months ended June 30, 2007, compared with \$214.7 million for the three months ended June 30, 2006. The 13% increase in revenue was a result of a 7% increase in revenue per vehicle sold over the prior year comparable quarter and a 6% increase in the number vehicles sold.

The 7% increase in revenue per vehicle sold resulted in increased ADESA Auctions revenue of approximately \$16.2 million. The increase in revenue per vehicle sold was primarily attributable to an increase in lower margin services such as transportation, reconditioning and other ancillary services. These factors resulted in increased ADESA Auctions revenue of approximately \$9.7 million. The higher transportation, reconditioning and other ancillary services revenues also resulted in corresponding increases in cost of services. Incremental fee income related to selective fee increases and higher wholesale used vehicle values resulted in increased ADESA Auctions revenue of approximately \$5.2 million. Fluctuations in the

Canadian exchange rate increased revenue by approximately \$1.3 million for the quarter ended June 30, 2007, compared with the quarter ended June 30, 2006.

The total number of wholesale vehicles sold at ADESA Auctions increased 6% in the second quarter 2007 compared with the second quarter 2006, resulting in an increase in ADESA Auctions revenue of approximately \$11.9 million.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at the Company's used vehicle auctions, increased to 60.7% for the three months ended June 30, 2007 from 58.2% for the three months ended June 30, 2006. The increase in the used vehicle conversion percentage positively impacted ADESA Auction revenues, gross profit and EBITDA for the quarter ended June 30, 2007 compared with the quarter ended June 30, 2006.

#### *Gross Profit*

For the three months ended June 30, 2007, gross profit increased \$9.0 million, or 9%, to \$110.2 million. The 13% increase in revenues was the leading factor increasing gross profit for the ADESA Auctions segment, as cost of services increased compared to the prior period as well as a percentage of revenues. Transportation, reconditioning costs and other ancillary services costs totaling \$8.4 million, primarily resulting from an increase in the number of institutional vehicles entered, was a leading driver increasing cost of services for the ADESA Auctions segment. Cost of services also increased due to the costs associated with handling an additional 11,000 used vehicles entered for sale at the Company's used vehicle auctions for the three months ended June 30, 2007 compared with the three months ended June 30, 2006. Fluctuations in the Canadian exchange rate increased cost of services at the ADESA Auctions segment by approximately \$0.7 million.

#### *Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA Auctions segment increased \$4.8 million, or 11%, to \$49.0 million for the quarter ended June 30, 2007 primarily due to increases in compensation and related employee benefits costs totaling \$4.2 million.

#### **Pro Forma Insurance Auto Auctions, Inc. ("IAAI") Results**

<i>(In millions except volumes and per vehicle amounts)</i>	<b>Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
IAAI revenue	<b>\$120.3</b>	\$103.3
Cost of services*	<b>77.5</b>	70.5
Gross profit*	<b>42.8</b>	32.8
Selling, general and administrative	<b>16.7</b>	14.6
Depreciation and amortization	<b>13.9</b>	13.9
Loss related to flood	<b>--</b>	0.3
Operating profit	<b>\$12.2</b>	\$4.0

\* Exclusive of depreciation and amortization

#### *Revenue*

Revenue from IAAI increased \$17.0 million, or 16%, to \$120.3 million for the three months ended June 30, 2007, compared with \$103.3 million for the three months ended June 30, 2006. The 16% increase in revenue was a result of the increase in salvage vehicles sold which was a result of volumes provided by acquisitions and greenfields and higher same store volumes.

#### *Gross Profit*

IAAI gross profit increased to \$42.8 million, or 35.6% of revenue, for the three months ended June 30, 2007 compared to \$32.8 million, or 31.8% of revenue, for the three months ended June 30, 2006, representing an increase of 30%. The increase in gross profit as a percentage of revenue reflects improvement in tow costs and auction yard costs as a percentage of revenue. IAAI has negotiated a number of tow contracts in the current year resulting in lower tow costs per vehicle towed. In addition, the Company has reduced its auction yard costs due to the elimination of costs associated with Hurricane Katrina related vehicles.

### *Selling, General and Administrative*

Selling, general and administrative expenses increased \$2.1 million, or 14%, for the quarter ended June 30, 2007 compared to the same period in 2006. The increase in selling, general and administrative expenses is attributable to \$2.5 million in one-time integration costs associated with the integration of ADESA Impact into IAAI. These costs represent travel, consulting costs, outside labor, and retention agreements.

### **Pro Forma Automotive Finance Corporation (“AFC”) Results**

<i>(In millions except volumes and per loan amounts)</i>	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
AFC revenue		
Securitization income	<b>\$20.3</b>	\$18.8
Interest and fee income	<b>16.1</b>	17.6
Other revenue	<b>1.5</b>	0.1
Provision for credit losses	<b>0.4</b>	(0.3)
Total AFC revenue	<b>38.3</b>	36.2
Cost of services*	<b>8.0</b>	7.7
Gross profit*	<b>30.3</b>	28.5
Selling, general and administrative	<b>4.2</b>	4.5
Depreciation and amortization	<b>7.0</b>	7.0
Transaction expenses	<b>--</b>	--
Operating profit	<b>\$19.1</b>	\$17.0
Loan transactions	<b>305,010</b>	295,959
Revenue per loan transaction	<b>\$126</b>	\$122

\* Exclusive of depreciation and amortization

### *Revenue*

For the three months ended June 30, 2007, AFC revenue increased to \$38.3 million compared with \$36.2 million for the three months ended June 30, 2006. The 6% increase in AFC revenue was driven by a 3% increase in the number of loan transactions and a 3% increase in revenue per loan transaction for the quarter ended June 30, 2007, compared with the same period in 2006. The increase in loan transactions to 305,010 for the three months ended June 30, 2007 was primarily the result of an increase in floorplan utilization by AFC's existing dealer base.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased \$4, or 3%, primarily as a result of increases in both interest rates and the average value of vehicles floored partially offset by increased cost of funds. In addition, increases in other revenue related to settlements on non-floorplan lines contributed to the increase in revenue and revenue per vehicle.

### *Gross Profit*

For the quarter ended June 30, 2007, gross profit for the AFC segment increased by \$1.8 million, or 6%, to \$30.3 million, as a result of the increase in revenues offset by a 4% increase in cost of services. Cost of services increased primarily as a result of processing additional loan transactions.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC decreased \$0.3 million, or 7%, to \$4.2 million for the three months ended June 30, 2007, as a result of decreases in certain professional fees.

## Pro Forma Holding Company Results

<i>(In millions)</i>	<b>Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Selling, general and administrative	<b>\$15.0</b>	\$13.2
Depreciation and amortization	<b>0.2</b>	0.2
Transaction expenses	<b>--</b>	--
Operating profit	<b>(15.2)</b>	(13.4)
Interest expense, net	<b>55.8</b>	55.8
Other (income) expense	<b>1.4</b>	(0.3)
Income (loss) from continuing operations before income taxes	<b>(\$72.4)</b>	(\$68.9)

### *Selling, General and Administrative Expenses*

For the quarter ended June 30, 2007, selling, general and administrative expenses at the holding company increased \$1.8 million, or 14%, to \$15.0 million, primarily as a result of increases in salaries and related benefits and certain professional fees.

## **Six Months Ended June 30, 2007**

### Pro Forma ADESA Auctions Results

<i>(In millions except volumes and per vehicle amounts)</i>	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
ADESA Auctions revenue	<b>\$478.7</b>	\$437.0
Cost of services*	<b>259.6</b>	232.9
Gross profit*	<b>219.1</b>	204.1
Selling, general and administrative	<b>96.3</b>	91.1
Depreciation and amortization	<b>37.2</b>	37.2
Transaction expenses	<b>--</b>	--
Operating profit	<b>\$85.6</b>	\$75.8

\* Exclusive of depreciation and amortization

### *Revenue*

Revenue from ADESA Auctions increased \$41.7 million, or 10%, to \$478.7 million for the six months ended June 30, 2007, compared with \$437.0 million for the six months ended June 30, 2006. The 10% increase in revenue was a result of a 5% increase in revenue per vehicle sold during the first half of the year and a 5% increase in vehicles sold.

A 5% increase in revenue per vehicle sold resulted in increased auctions revenue of approximately \$22.4 million. The increase in revenue per vehicle sold was primarily attributable to an increase in lower margin services such as transportation and other ancillary services. These factors resulted in increased ADESA Auctions revenue of approximately \$12.2 million. The higher transportation and other ancillary services revenues also resulted in corresponding increases in cost of services. Incremental fee income related to selective fee increases and higher wholesale used vehicle values resulted in increased ADESA Auctions revenue of approximately \$9.5 million. Fluctuations in the Canadian exchange rate increased revenue by approximately \$0.7 million for the six months ended June 30, 2007, compared with the six months ended June 30, 2006.

While the number of retail used vehicles sold was at the lowest year-to-date levels this decade, the total number of wholesale vehicles sold at ADESA Auctions increased 5% in the first half of 2007 compared with the first half of 2006, resulting in an increase in ADESA Auctions revenue of approximately \$19.3 million.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at the Company's used vehicle auctions, increased to 63.4% for the six months ended June 30, 2007 from 62.1% for the six months ended June 30, 2006. The increase in the used vehicle conversion percentage positively impacted ADESA Auction revenues, cost of services and EBITDA for the six months ended June 30, 2007 compared with the six months ended June 30, 2006.

### *Gross Profit*

For the six months ended June 30, 2007, gross profit in the ADESA Auctions segment increased \$15.0 million, or 7%, to \$219.1 million. Increases in transportation costs (which includes fuel costs) and other ancillary services costs was a leading driver increasing cost of services for the ADESA Auctions segment by \$12.2 million. Cost of services also increased due to the costs associated with handling additional used vehicles entered for sale at the Company's used vehicle auctions for the six months ended June 30, 2007 compared with the six months ended June 30, 2006. Fluctuations in the Canadian exchange rate increased cost of services at the ADESA Auctions segment by approximately \$0.3 million.

### *Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA Auctions segment increased \$5.2 million, or 6%, to \$96.3 million for the six months ended June 30, 2007 as a result of increases in compensation and related employee benefits costs as well as marketing costs. These increases were partially offset by a decrease in professional fees. In addition, the ADESA Auctions segment also incurred a \$2.7 million pretax charge in the first half of 2006 related to unreconciled balance sheet differences concealed by a former employee at ADESA's Kitchener, Ontario, auction facility.

### **Pro Forma Insurance Auto Auctions, Inc. ("IAAI") Results**

<i>(In millions except volumes and per vehicle amounts)</i>	Six Months Ended	
	June 30,	
	2007	2006
IAAI revenue	\$243.1	\$209.1
Cost of services*	154.9	139.7
Gross profit*	88.2	69.4
Selling, general and administrative	36.9	30.2
Depreciation and amortization	27.7	27.7
Loss related to flood	--	3.2
Operating profit	\$23.6	\$8.3

\* Exclusive of depreciation and amortization

### *Revenue*

Revenue from IAAI increased \$34.0 million, or 16%, to \$243.1 million for the six months ended June 30, 2007, compared with \$209.1 million for the six months ended June 30, 2006. The increase in revenue was a result of a 22% increase in salvage vehicles sold during the six months ended June 30, 2007. The increase in salvage vehicles sold was a result of volumes provided by acquisitions and greenfields as well as higher same store volumes.

### *Gross Profit*

For the six months ended June 30, 2007, gross profit at IAAI increased to \$88.2 million, or 36.3% of revenue, compared with \$69.4 million, or 33.2% of revenue, for the six months ended June 30, 2006. Cost of services increased 11% due to increases related to acquisitions and greenfields, as well as costs associated with the increased volumes; however, cost of services increased at a lower rate than revenues. IAAI has negotiated a number of tow contracts in the current year resulting in lower tow costs per vehicle towed. In addition, the Company has reduced its auction yard costs due to the elimination of costs associated with Hurricane Katrina related vehicles.

### *Selling, General and Administrative*

Selling, general and administrative expenses at IAAI increased \$6.7 million, or 22%, to \$36.9 million for the six months ended June 30, 2007, compared with \$30.2 million for the six months ended June 30, 2006. The increase in selling, general and administrative expenses is primarily attributable to integration costs associated with the integration of ADESA Impact into IAAI. These costs represent travel, consulting costs, outside labor, and retention agreements.

### **Pro Forma Automotive Finance Corporation ("AFC") Results**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
<i>(In millions except volumes and per loan amounts)</i>	<b>2007</b>	<b>2006</b>
AFC revenue		
Securitization income	<b>\$41.1</b>	\$39.4
Interest and fee income	<b>31.7</b>	30.6
Other revenue	<b>2.0</b>	0.2
Provision for credit losses	<b>(0.4)</b>	(1.0)
Total AFC revenue	<b>74.4</b>	69.2
Cost of services*	<b>15.6</b>	14.9
Gross profit*	<b>58.8</b>	54.3
Selling, general and administrative	<b>8.8</b>	8.8
Depreciation and amortization	<b>14.0</b>	14.0
Transaction expenses	<b>--</b>	--
Operating profit	<b>\$36.0</b>	\$31.5
Loan transactions	<b>614,389</b>	576,911
Revenue per loan transaction	<b>\$121</b>	\$120

\* Exclusive of depreciation and amortization

### *Revenue*

For the six months ended June 30, 2007, AFC revenue increased to \$74.4 million, or 8%, compared with \$69.2 million for the six months ended June 30, 2006. The 8% increase in AFC revenue was driven by an increase in the number of loan transactions by more than 6% and a 1% increase in revenue per loan transaction for the six months ended June 30, 2007, compared with the same period in 2006. The increase in loan transactions to 614,389 for the six months ended June 30, 2007 was primarily the result of an increase in floorplan utilization by AFC's existing dealer base.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased \$1, or 1%, primarily as a result pro forma purchase accounting adjustments in 2006 partially offset by increased cost of funds. In connection with the accounting for the merger transactions, the Company wrote up the finance receivables acquired to fair value. The step-up value of finance receivables as a result of pro forma adjustments assuming the merger took place on January 1, 2006 decreased revenue in the first six months of 2006 by \$2.2 million. In addition, increases in other revenue related to settlements on non-floorplan lines contributed to the increase in revenue and revenue per vehicle.

### *Gross Profit*

For the six months ended June 30, 2007, gross profit for the AFC segment increased \$4.5 million, or 8%, to \$58.8 million, at a rate consistent with the growth in revenue. Cost of services increased 5% as a result of an increase in compensation and related employee benefits, as well as increased expense associated with lot checks.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC remained flat at \$8.8 million for both the six months ended June 30, 2007 and 2006.

### **Pro Forma Holding Company Results**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
<i>(In millions)</i>	<b>2007</b>	<b>2006</b>
Selling, general and administrative	<b>\$30.4</b>	\$26.8
Depreciation and amortization	<b>0.4</b>	0.4
Transaction expenses	<b>--</b>	--
Operating profit (loss)	<b>(30.8)</b>	(27.2)
Interest expense, net	<b>111.5</b>	111.5
Other (income) expense	<b>1.4</b>	(0.5)
Income (loss) from continuing operations before income taxes	<b>(\$143.7)</b>	(\$138.2)

### *Selling, General and Administrative Expenses*

For the six months ended June 30, 2007, selling, general and administrative expenses at the holding company increased \$3.6 million, or 13%, to \$30.4 million, primarily due to increases in compensation and related employee benefit costs and professional fees.

## LIQUIDITY AND CAPITAL RESOURCES

The Company believes that the significant indicators of liquidity for its business are cash on hand, cash flow from operations, working capital and amounts available under its credit facility. The liquidity measures identified below present the combined successor and predecessor data for the periods indicated.

<i>(Dollars in millions)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Cash and cash equivalents	<b>\$310.3</b>	\$209.7
Restricted cash	<b>\$16.0</b>	\$7.8
Working capital	<b>\$469.9</b>	\$375.9
Amounts available under credit facility	<b>\$282.5</b>	\$295.0
Cash flow from operations (year-to-date combined)	<b>\$89.9</b>	\$207.8

### Working Capital

A substantial amount of the Company's working capital is generated from the payments received for services provided. The majority of the Company's 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 services are received at each auction and loan production office. Most of the financial institutions place a temporary hold on the availability of the funds deposited that can range anywhere from one to three business days, resulting in cash in the Company's accounts and on its balance sheet that is unavailable for use until it is made available by the various financial institutions. Over the years, the Company has increased the amount of funds that are available for immediate use and is actively working on initiatives that will continue to decrease the time between the deposit of and the availability of funds received from customers. There are outstanding checks (book overdrafts) to sellers and vendors included in current liabilities. Because the majority 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 unavailable cash, the Company cannot offset the cash and the outstanding checks on its balance sheet.

AFC offers short-term inventory-secured financing, also known as floorplan financing, to used vehicle dealers. Financing is primarily provided for terms of 30 to 60 days. AFC principally generates its funding through the sale of its U.S. dollar denominated receivables. For further discussion of AFC's securitization arrangements, see "Off-Balance Sheet Arrangements".

### Credit Facilities

KAR Holdings has a \$300 million revolving line of credit as part of the Company's \$1,865 million senior credit facility, from which nothing was drawn as of June 30, 2007. There were outstanding letters of credit totaling approximately \$17.5 million at June 30, 2007, which reduce the amount available under the senior credit facility. The Company's Canadian operations had letters of credit outstanding totaling \$2.3 million at June 30, 2007, which do not impact amounts available under the credit facility.

On April 20, 2007, the Company entered into a \$1,865 million senior credit facility, pursuant to the terms and conditions of a credit agreement (the "Credit Agreement") with Bear Stearns Corporate Lending Inc., as administrative agent, and a syndicate of lenders. The Credit Agreement has a six and one-half year term that expires on October 19, 2013. Under the terms of the Credit Agreement, the lenders committed to provide advances and letters of credit in an aggregate amount of up to \$1,865 million subject to certain conditions. Borrowings under the Credit Agreement may be used to finance working capital, capital expenditures and acquisitions permitted under the Credit Agreement and for other corporate purposes.

The Credit Agreement provides for a six and one-half year \$1,565 million term loan and a six year \$300 million revolving credit facility. The term loan will be repaid in quarterly installments at an amount of 0.25% of the initial term loan, with the remaining principal balance due on October 19, 2013. The revolving credit facility may be used for loans, and up to \$75 million may be used for letters of credit. The revolving loans may be borrowed, repaid and reborrowed until April 19, 2013, at which time all revolving amounts borrowed must be repaid.

The revolving credit facility bears interest at a rate equal to LIBOR plus a margin ranging from 150 basis points to 225 basis points depending on the Company's total leverage ratio. As of June 30, 2007, KAR's revolving credit facility margin based on its leverage ratio was 225 basis points. The term loan facility bears interest at a rate equal to LIBOR plus a margin of either 200 basis points or 225 basis points depending on the Company's total leverage ratio and ratings received from Moody's and Standard and Poor's. As of June 30, 2007, KAR's term loan facility margin was 225 basis points.

The Credit Agreement contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum consolidated senior secured leverage ratio and covenants limiting KAR's ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, make capital expenditures and make investments. The leverage ratio covenants are based on consolidated Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude (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 expense; (j) expenses associated with the consolidation of salvage operations; (k) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (l) expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts; and (m) expenses incurred in connection with permitted acquisitions.

The covenants contained within the senior credit facility are critical to an investor's understanding of the Company's financial liquidity, as the violation of these covenants could cause a default and lenders could elect to declare all amounts borrowed due and payable. In addition, the Company's notes contain certain financial and operational restrictions on paying dividends and other distributions, making certain acquisitions or investments, incurring indebtedness, granting liens and selling assets. These financial covenants affect the Company's operating flexibility by, among other things, restricting its ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. The Company is not required to assess compliance with the covenants until December 31, 2007.

On June 30, 2007, \$1,565 million was outstanding on the term loan and there were no borrowings on the revolving credit facility. The Company believes its sources of liquidity from its cash and cash equivalents on hand, working capital, cash provided by operating activities, and availability under its credit facility are sufficient to meet its short and long-term operating needs for the foreseeable future. In addition, the Company believes the previously mentioned sources of liquidity will be sufficient to fund the Company's capital requirements and debt service payments for the next twelve months.

#### ***EBITDA and Adjusted EBITDA***

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

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. The Company calculates Adjusted EBITDA by adjusting EBITDA for the items of income and expense and expected incremental revenue and cost savings 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 certain covenants required pursuant to the Company's senior credit facilities and the notes. EBITDA and Adjusted EBITDA measures have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The calculation of Adjusted EBITDA per the credit agreement presented below includes a pro forma adjustment for cost savings related to the merger totaling \$10.5 million for the 12 months ended June 30, 2007. The adjustment relates to anticipated costs savings for redundant selling, general and administrative costs for the salvage operations. The following table reconciles EBITDA and Adjusted EBITDA for the periods presented:

	Three Months Ended				Months Ended
	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	June 30, 2007
<i>(In millions)</i>					
<b>Net income</b>	\$29.8	\$18.2	\$38.4	(\$12.8)	\$73.6
Add back: discontinued operations	0.3	0.1	--	0.1	0.5
<b>Income from continuing operations</b>	30.1	18.3	38.4	(12.7)	74.1
Add back:					
Income taxes	17.3	14.5	24.6	10.2	66.6
Interest expense, net of interest income	13.5	13.8	13.6	46.6	87.5
Depreciation and amortization	18.7	19.4	18.7	32.2	89.0
<b>EBITDA</b>	79.6	66.0	95.3	76.3	317.2
Nonrecurring charges	3.1	5.2	1.1	5.6	15.0
Nonrecurring transaction charges	--	6.1	2.4	22.4	30.9
Noncash charges	4.3	2.5	5.2	1.0	13.0
Advisory services	0.1	0.2	0.1	0.8	1.2
Full year impact of recent acquisitions	1.0	0.7	--	--	1.7
<b>Adjusted EBITDA</b>	\$88.1	\$80.7	\$104.1	\$106.1	379.0
Pro forma cost savings per the credit agreement					10.5
<b>Adjusted EBITDA per the credit agreement</b>					\$389.5

### Summary of Cash Flows

	2007			2006	
	Successor	Predecessor		Predecessor	
	April 20 – June 30, 2007	ADESA January 1 – April 19, 2007	IAAI January 1 – April 19, 2007	ADESA January 1 – June 30, 2006	IAAI December 26, 2005 – June 25, 2006
<i>(In millions)</i>					
Net cash provided by (used for):					
Operating activities	\$58.9	\$14.1	\$16.9	\$55.7	\$19.7
Investing activities	(5.7)	(34.4)	(5.8)	(91.7)	(26.2)
Financing activities	24.2	56.5	(0.6)	5.4	6.2
Effect of exchange rate on cash	0.2	(0.1)	--	0.5	--
Net increase (decrease) in cash and cash equivalents	\$77.6	\$36.1	\$10.5	(\$30.1)	(\$0.3)

KAR Holdings' cash flow initiatives include growing its used vehicle, salvage vehicle and dealer financing businesses both internally by expanding facilities, services and operations, and externally through acquisitions. Transaction-related expenses of \$24.4 million were paid in 2007.

Cash flow from operating activities was \$89.9 million for the six months ended June 30, 2007, compared with \$75.4 million for the same period in 2006. Operating cash flow was favorably impacted by lower levels of cash used for working capital, as well as increased non-cash charges for depreciation and amortization and stock-based compensation expense. This activity was partially offset by lower earnings.

Net cash used for investing activities was \$45.9 million for the six months ended June 30, 2007, compared with net cash used by investing activities of \$117.9 million for the six months ended June 30, 2006. This change was primarily the result of a decrease in cash used for acquisitions of \$47.3 million as well as a decrease in cash associated with finance receivables held for investment. In addition, in the first half of 2006, \$12.5 million was used for a cash investment in Finance Express LLC. Capital expenditures were up \$5.4 million through the first six months of 2007 compared to the first six months of 2006. For a discussion of the Company's capital expenditures, see "Capital Expenditures" below. There were no significant investing cash flows related to discontinued operations in the periods presented.

Net cash provided by financing activities was \$80.1 million for the six months ended June 30, 2007, compared with cash provided by financing activities of \$11.6 million for the same period in 2006. The primary drivers for net cash provided by financing activities can be attributed to the change in book overdrafts which fluctuated \$39.7 million as well as a decrease in dividend payments of \$13.4 million and an increase in proceeds from the issuance of common stock under stock plans of \$9.0 million. There were no significant financing cash flows related to discontinued operations in the periods presented.

### **Capital Expenditures**

Capital expenditures (excluding acquisitions and other investments) for the six months ended June 30, 2007 and the year ended December 31, 2006 totaled \$30.4 million and \$54.6 million, respectively, and were funded primarily from internally generated funds. The Company continues to invest in its core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately \$80 million for fiscal year 2007. Anticipated expenditures are primarily attributable to ongoing information system maintenance, 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 the Company's business strategies.

### **Acquisitions**

In the first quarter of 2007, IAAI acquired Permian Basin Salvage Pool in Odessa, Texas. The acquisition complements existing coverage in this market. Financial results for this acquisition have been included in IAAI's consolidated financial statements since the date of acquisition. The aggregate purchase price of this acquisition was approximately \$0.6 million. As a result of the merger transactions, no purchase price allocation was completed. Pro forma financial results reflecting the acquisition were not materially different from those reported.

### **Off-Balance Sheet Arrangements**

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. In conjunction with the merger transaction, AFC and AFC Funding Corporation amended their securitization agreement on April 20, 2007. The agreement expires on April 20, 2012. The agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of up to a maximum of \$750 million in undivided interests in certain eligible finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of \$600 million and \$550 million at June 30, 2007 and December 31, 2006, respectively. Receivables that AFC Funding sells to the bank conduit facility qualify for sales accounting for financial reporting purposes pursuant to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, and as a result are not reported on the Company's Consolidated Balance Sheet.

At June 30, 2007, AFC managed total finance receivables of \$846.5 million, of which \$741.7 million had been sold without recourse to AFC Funding Corporation. At December 31, 2006, AFC managed total finance receivables of \$775.9 million, of which \$693.0 million had been sold without recourse to AFC Funding Corporation. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling \$535.0 million and \$501.0 million at June 30, 2007 and December 31, 2006, respectively. Finance receivables include \$52.9 million and \$42.6 million classified as held for sale and \$125.5 million and \$162.7 million classified as held for investment at June 30, 2007 and December 31, 2006, respectively. AFC's allowance for losses of \$2.3 million and \$2.0 million at June 30, 2007 and December 31, 2006, respectively, include an estimate of losses for finance receivables held for investment. Additionally, accrued liabilities of \$4.3 million and \$3.9 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at June 30, 2007 and December 31, 2006, respectively. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of Company's credit facility. At June 30, 2007, the Company was in compliance with the covenants contained in the securitization agreement.

## **Critical Accounting Estimates**

In preparing the financial statements in accordance with 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 operations and financial condition of the Company include: uncollectible receivables and allowance for credit losses and doubtful accounts, estimate of losses for loans sold, recoverability of 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 KAR's 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 the Company's financial statements.

KAR Holdings continually evaluates the accounting policies and estimates it uses 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.

### **Adoption of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109***

On January 1, 2007, the Predecessor companies, ADESA and IAAI, adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No 109* ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes 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. As a result of adopting FIN 48, the Predecessor ADESA and Predecessor IAAI companies recorded changes in liabilities of \$1.7 million and (\$0.1) million, respectively, and a corresponding change in retained earnings and goodwill, respectively.

## **New Accounting Standards**

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This standard is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of SFAS 157 will have on the consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This standard is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact the adoption of SFAS 159 will have on the consolidated financial statements.