Rexford Industrial Realty, Inc.
Form 10-K
February 23, 2017

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

FORM 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36008

Rexford Industrial Realty, Inc.
(Exact name of registrant as specified in its charter)

MARYLAND	46-2024407
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11620 Wilshire Boulevard, Suite 1000, Los Angeles, California	90025
(Address of principal executive offices)	(Zip Code)

(310) 966-1680
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
5.875% Series A Cumulative Redeemable Preferred Stock	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The aggregate market value of the voting stock held by non-affiliates of the registrant based upon the closing sale price of the registrant's common stock on June 30, 2016 as reported on the New York Stock Exchange ("NYSE") was approximately $1,382 million. The registrant had no non-voting common equity outstanding on such date. This amount excludes 509,016 shares of the registrant's common stock held by the executive officers and directors. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.
The number of shares of common stock outstanding at February 14, 2017 was 66,621,971.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement with respect to its 2017 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10-K.

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PART I

Forward-Looking Statements

We make statements in this Annual Report on Form 10-K that are forward-looking statements, which are usually identified by the use of words such as “anticipates,” “believes,” “expects,” “intends,” “may,” “might,” “plans,” “estimates,” “pr “seeks,” “should,” “will,” “result,” and variations of such words or similar expressions. Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward-looking statements. Furthermore, actual results may differ materially from those described in the forward-looking statements and may be affected by a variety of risks and factors including, without limitation:

- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- potential defaults on or non-renewal of leases by tenants;
- potential bankruptcy or insolvency of tenants;
- acquisition risks, including failure of such acquisitions to perform in accordance with expectations;
- the timing of acquisitions and dispositions;
- potential natural disasters such as earthquakes, wildfires or floods;
- the consequence of any future security alerts and/or terrorist attacks;
- national, international, regional and local economic conditions;
- the general level of interest rates;
- potential changes in the law or governmental regulations that affect us and interpretations of those laws and regulations, including changes in real estate and zoning or real estate investment trust (“REIT”) tax laws, and potential increases in real property tax rates;
- financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;
- lack of or insufficient amounts of insurance;
- our failure to complete acquisitions;
- our failure to successfully integrate acquired properties;
- our ability to qualify and maintain our qualification as a REIT;
- our ability to maintain our current investment grade rating by Fitch;
- litigation, including costs associated with prosecuting or defending pending or threatened claims and any adverse outcomes; and
- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our financial statements and the notes thereto, as well as Item 1A. entitled “Risk Factors” in this report.

Item 1. Business

Company Overview

References to "we," "our," "us," "our company," or "the Company" refer to Rexford Industrial Realty, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Rexford Industrial Realty, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this report as our Operating Partnership.

We are a self-administered and self-managed full-service REIT focused on owning, operating and acquiring industrial properties in Southern California infill markets. Our goal is to generate attractive risk-adjusted returns for our stockholders by providing superior access to industrial property investments in Southern California infill markets.

We were formed as a Maryland corporation on January 18, 2013 and Rexford Industrial Realty, L.P. (the "Operating Partnership"), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we own, manage, lease, acquire and develop industrial real estate primarily located in Southern California infill markets, and from time to time, acquire or provide mortgage debt secured by industrial property. As of December 31, 2016, our consolidated portfolio consisted of 136 properties with approximately 15.0 million rentable square feet. In addition, we currently manage an additional 19 properties with approximately 1.2 million rentable square feet.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with our taxable year ending December 31, 2013. We are generally not subject to federal taxes on our income to the extent we distribute our income to our shareholders and maintain our qualification as a REIT.

Business Objectives and Growth Strategies

Our primary business objective is to generate attractive risk-adjusted returns for our stockholders through dividends and capital appreciation. We believe that pursuing the following strategies will enable us to achieve this objective:

Internal Growth through Intensive, Value-Add Asset Management.

We employ an intensive asset management strategy that is designed to increase cash flow and occupancy from our properties. Our strategy includes proactive renewal of existing tenants, re-tenanting to achieve higher rents, and repositioning industrial property by renovating, modernizing or increasing functionality to increase cash flow and value. For example, we sometimes convert formerly single-tenant properties to multi-tenant occupancy to capitalize upon the higher per square foot rents generated by smaller spaces in our target markets in addition to adding or improving loading and increasing fire, life-safety and building operating systems, among other value-add initiatives. We believe that by undertaking such conversions or other functional enhancements, we can position our properties to attract a larger universe of potential tenants, increase occupancy, tenant quality and rental rates. We also believe that multi-tenant properties, as well as single mid-size buildings, help to limit our exposure to tenant default risk and to diversify our sources of cash flow. Additionally, our proactive approach to leasing and asset management is driven by our in-house leasing department and team of portfolio and property managers who maintain direct, day-to-day relationships and dialogue with our tenants, which we believe enhances recurring cash flow and reduces periods of vacancy.

External Growth through Acquisitions.

We continue to grow our portfolio through disciplined acquisitions in prime Southern California infill markets. We believe that our relationship-, data- and event-driven research allows us to identify and exploit asset mispricing and market inefficiencies. We seek to acquire assets with value-add opportunities to increase their cash flow and asset values, often targeting off-market or lightly marketed transactions where our execution abilities and market credibility encourage owners to sell assets to us at what we consider pricing that is more favorable than heavily marketed transactions. We also seek to source transactions from owners with generational ownership shift, fund divestment, sale-leaseback/corporate surplus, maturing loans, some facing liquidity needs or financial stress, including loans that lack economical refinancing options. We also believe our deep market presence and relationships may enable us to selectively acquire assets in marketed transactions that may be difficult to access for less focused buyers.

Competitive Strengths

We believe that our investment strategy and operating model distinguishes us from other owners, operators and acquirers of industrial real estate in several important ways, including the following:

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Focus on Industrial Assets in Southern California's Infill Market: We intend to continue our core strategy of owning and operating industrial properties within Southern California's infill regions. Infill markets are considered high-barrier-to entry markets with scarcity of vacant or developable land and high concentrations of people, jobs, housing, income, wages and consumption. We believe Southern California's infill industrial property market is the largest, most fragmented industrial market in the nation, demonstrating favorable long-term tenant demand fundamentals in the face of an ongoing scarcity and diminishment of supply. We have a portfolio of interests in 136 properties totaling approximately 15.0 million square feet, which are all located in Southern California infill markets.
Diversified Tenant Mix: Our portfolio is leased to a broad tenant base, drawn from diverse industry sectors. We believe that this diversification reduces our exposure to tenant default risk and earnings volatility. As of December 31, 2016, we had 1,266 leases, with no single tenant accounting for more than 1.7% of our total annualized base rent. Our portfolio is also geographically diversified within the Southern California market across the following submarkets: Los Angeles (45%); Orange County (16%); San Diego (15%); San Bernardino (13%); Ventura (11%).
Superior Access to Deal Flow: We believe that we enjoy superior access to value-add, off-market, lightly marketed and marketed acquisition opportunities, many of which are difficult for competing investors to access. Off-market and lightly marketed transactions are characterized by a lack of a formal marketing process and a lack of widely disseminated marketing materials. Marketed transactions are often characterized by extensive buyer competition, making such transactions difficult to close on for less-focused investors. As we are principally focused on the Southern California market, our executive management and acquisition teams have developed and maintain a deep, broad network of relationships among key market participants, including property brokers, lenders, owners and tenants. We employ an extensive broker marketing, incentives and loyalty program. We also utilize data-driven and event-driven analytics and primary research to identify and pursue events and circumstances, including below-market leased properties, properties experiencing functional obsolescence, generational ownership changes, and financial stress related to properties, owners, lenders, and tenants, that tend to generate early access to emerging investment opportunities.
Vertically Integrated Platform: We are a full-service real estate operating company, with substantial in-house capabilities in all aspects of our business. Our platform includes experienced in-house teams focused on acquisitions, analytics and underwriting, asset management and repositioning, property management, sales and leasing, construction management, as well as finance, accounting, legal and human relations departments.
Value-Add Repositioning and Redevelopment Expertise: Our in-house redevelopment and construction management team employs an entrepreneurial approach to redevelopment and repositioning activities that are designed to increase the functionality, cash flow and value of our properties. These activities include converting large underutilized spaces into a series of smaller and more functional spaces, building generic industrial space that appeals to a wide range of tenants, adding additional square footage and modernizing properties by, among other things, upgrading fire, life-safety and building operating systems, resolving functional obsolescence, adding or enhancing loading areas and truck access and making certain other accretive improvements.
Growth-Oriented, Flexible and Conservative Capital Structure: Our capital structure provides us with the resources, financial flexibility and the capacity to support the future growth of our business. Since our initial public offering, we have raised capital through three public offerings of our common stock, one public offering of preferred stock and most recently, through sales of common stock under our at-the-market equity offering program ("ATM Program"). As of the filing date of this Annual Report on Form 10-K, we have sold $13.2 million of our common stock under the ATM Program, leaving us with the capacity to issue up to $111.8 million of additional shares. On February 14, 2017, we amended our $300 million credit facility by entering into the Amended Credit Agreement (as defined below) which, amongst other matters, increased the borrowing capacity of our unsecured revolving credit facility from $200 million (the "Prior Revolver") to $350 million. As of the filing date of this Annual Report on Form 10-K, we had borrowings of $15 million outstanding under the unsecured revolving credit facility, leaving $335 million available. The Amended Credit Agreement has an accordion feature that permits us to request additional lender commitments up to an additional $550 million, subject to certain conditions. As of December 31, 2016, our ratio of net debt to total market capitalization was 22.6%.

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Competition

In acquiring our target properties, we compete with other public industrial property sector REITs, income oriented non-traded REITs, private real estate fund managers and local real estate investors and developers, some of which have greater financial resources or other competitive advantages than we do. Such competition may result in an increase in the amount we must pay to acquire a property or may require us to forgo an investment in properties which would otherwise meet our investment criteria. We also face significant competition in leasing available properties to prospective tenants and in re-leasing space to existing tenants. As a result, we may have to provide rent concessions, incur expenses for tenant improvements or offer other inducements to enable us to timely lease vacant space, all of which may have an adverse impact on our results of operations.

Insurance

We carry commercial property, liability, environmental and terrorism coverage on all the properties in our portfolio under a blanket insurance policy. In addition, we hold other environmental policies for certain properties with known environmental conditions that provides for additional coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations. Generally, we do not carry insurance for certain types of extraordinary losses, including, but not limited to, losses caused by floods (unless the property is located in a flood plan), earthquakes, riots, war and wildfires. Substantially all of our properties are located in areas that are subject to earthquakes and are not currently insured against such an event (either with a blanket policy or individual property policies). However, seismic risks are evaluated for all properties during acquisition by a qualified structural engineer. The engineer evaluates the conditions of the physical structure as well as the known geological features in the area to create a statistical analysis of the site. To the extent that the engineer identifies a property with weaknesses that contribute to a high statistical risk, the property will generally be structurally retrofitted to reduce the statistical risk to an acceptable level. In addition to the aforementioned proactive retrofitting of buildings, we will continue to monitor third-party earthquake insurance pricing and conditions and may consider obtaining third-party coverage if and when we deem it cost effective.

Segment and Geographic Financial Information

We manage our operations on an aggregated, single segment basis for purposes of assessing performance and making operating decisions and, accordingly, we have only one reporting and operating segment.

All of our business is conducted in Southern California. For information about our revenues, long-lived assets and other financial information, see our consolidated financial statements included in this report and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

Employees

As of December 31, 2016, we employed 90 full-time employees. We believe that relations with our employees are good. None of our employees are represented by a labor union.

Principal Executive Offices

Our principal executive offices are located 11620 Wilshire Boulevard, Suite 1000, Los Angeles, California 90025 (telephone 310-966-1680). We believe that our current facilities are adequate for our present and future operations.

Available Information

We file our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, Information Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") with the U.S. Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE.; Washington, DC 20549. The public may obtain information on the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy details and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

Our website address is http://www.rexfordindustrial.com. We make available on our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, Information Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the

SEC.

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Our board of directors maintains charters for each of its committees and has adopted a written set of corporate governance guidelines and a code of business conduct and ethics applicable to independent directors, executive officers, employees and agents, each of which is available for viewing on our website at http://www.rexfordindustrial.com under the heading “Investor Relations—Company Information—Governance Documents.” Website addresses referred to in this Annual Report on Form 10-K are not intended to function as hyperlinks, and the information contained on our website is not incorporated into, and does not form a part of this Annual Report on Form 10-K or any other report or documents we file with or furnish to the SEC.

Regulation

General

Our properties are subject to various laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that we have the necessary permits and approvals to operate each of our properties.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, as amended (the “ADA”) to the extent that such properties are “public accommodations” as defined under the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Although we believe that the properties in our portfolio in the aggregate substantially comply with present requirements of the ADA, and we have not received any notice for correction from any regulatory agency, we have not conducted a comprehensive audit or investigation of all of our properties to determine whether we are in compliance and therefore we may own properties that are not in compliance with current ADA standards.

ADA compliance is dependent upon the tenant’s specific use of the property, and as the use of a property changes or improvements to existing spaces are made, we will take steps to ensure compliance. Noncompliance with the ADA could result in additional costs to attain compliance, imposition of fines by the U.S. government or an award of damages plus attorney’s fees to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make alterations to achieve compliance as deemed commercially reasonable.

Environmental Matters

The properties that we acquire are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, to the extent we own a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated and, therefore, it is possible we could incur these costs even after we sell some of the properties we acquire. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner’s ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at a property may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above, which have the potential to be very significant. The costs to clean up a contaminated property, to defend against a claim or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our stockholders. To mitigate some of the environmental risk, our properties are covered by a blanket environmental insurance policy. In addition, we hold other environmental policies for certain properties with known environmental conditions that provides for additional coverage for potential environmental liabilities. These policies, however, are subject to certain limits, deductibles and

exclusions, and insurance may not fully compensate us for any environmental liability. We require Phase I or similar environmental assessments by independent environmental consultants at the time of acquisition of a property. Phase I environmental investigations are a common form of real estate due diligence that are

governed by nationally recognized American Society for Testing and Materials (ASTM) standards and typically conducted by licensed environmental scientists. Phase I investigations commonly include a physical walk-through of the property in addition to a file review of the site. The file review includes creating a known operating history of the site. This includes but is not limited to inquiries with local governmental agencies as well as reviewing historical aerial reviews. If the consultant identifies any unexplained Recognized Environmental Concerns ("REC") then the consultant typically recommends further investigation, usually through specific invasive property tests. This additional round of investigation is commonly referred to as a "Phase II". Invasive testing may or may not include air, soil, soil vapor or ground water sampling. Additionally, it may or may not include an asbestos and/or lead based paint survey. Depending on the results of the initial Phase II investigation, the consultant may recommend further Phase II investigations, or if satisfied with the results, the consultant may decide the initial REC identified is no longer a concern. We generally expect to continue to obtain a Phase I or similar environmental site assessments by independent environmental consultants on each property prior to acquiring it. However, these environmental assessments may not reveal all environmental costs that might have a material adverse effect on our business, assets and results of operations or liquidity and may not identify all potential environmental liabilities.

We can make no assurances that (1) future laws, ordinances or regulations will not impose material environmental liabilities on us, or (2) the current environmental condition of our properties will not be affected by tenants, the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Item 1A. Risk Factors

Set forth below are some (but not all) of the factors that could adversely affect our performance and financial condition. Moreover, we operate in a highly competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for us to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

We believe the following risks are material to our stockholders. You should carefully consider the following factors in evaluating our company, our properties and our business. The occurrence of any of the following risks could adversely affect our results of operations, cash flows and our ability to pay distributions on, and the per share trading price of, our common stock and might cause our stockholders to lose all or part of their investment. For purposes of this section, the term "stockholders" means the holders of shares of our common stock.

Risks Related to Our Business and Operations

Our portfolio of properties is concentrated in the industrial real estate sector, and our business would be adversely affected by an economic downturn in that sector.

Our properties are concentrated in the industrial real estate sector. This concentration exposes us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

Our portfolio of properties is dependent upon regional and local economic conditions and is geographically concentrated in Southern California infill markets, which causes us to be especially susceptible to adverse developments in those markets.

All of our properties are located in Southern California, which may expose us to greater or lesser economic risks than if we owned a more geographically diverse portfolio. We are particularly susceptible to adverse economic or other conditions in Southern California (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes and the cost of complying with governmental regulations or increased regulation), as well as to natural disasters that occur in this market (such as earthquakes, wild fires and other events). Most of our properties are located in areas known to be seismically active. Our properties are not currently insured against earthquakes (either with a blanket policy or individual property policies). Even if we obtain earthquake insurance in the future, the amount of our coverage may not be sufficient to fully cover losses from earthquakes and associated disasters. The Southern California market has experienced downturns in past years. Any future downturns in the Southern California economy could impact our

tenants' ability to continue to meet their rental obligations or otherwise adversely affect the size of our tenant base, which could materially adversely affect our operations and our revenue and cash available for distribution, including cash available to pay distributions to our stockholders. We cannot assure you that the Southern California market will grow or that underlying real estate fundamentals will be favorable to owners and operators of industrial properties. Our operations may also be

affected if competing properties are built in the Southern California market. In addition, the State of California is regarded as more litigious and more highly regulated and taxed than many other states, all of which may reduce demand for industrial space in California and may make it more costly to operate our business. Any adverse economic or real estate developments in the Southern California market, or any decrease in demand for industrial space resulting from the regulatory environment, business climate or energy or fiscal problems, could adversely impact us and our stockholders.

Our properties are concentrated in certain industries that make us susceptible to adverse events with respect to those industries.

Our properties are concentrated in certain industries, which, as of December 31, 2016, included the following (and accounted for the percentage of our total annualized base rent indicated): Warehousing (24.7%); Wholesale Trade (17.5%); Manufacturing (12.8%); Professional, Scientific, and Technical Services (7.4%); and Retail Trade (6.5%). Any downturn in one or more of these industries, or in any other industry in which we may have a significant concentration now or in the future, could adversely affect our tenants who are involved in such industries. If any of these tenants is unable to withstand such downturn or is otherwise unable to compete effectively in its business, it may be forced to declare bankruptcy, fail to meet its rental obligations, seek rental concessions or be unable to enter into new leases, which could materially and adversely affect us.

Our debt level reduces cash available for distribution and may expose us to the risk of default under our debt obligations.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the dividends necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- we may be forced to dispose of one or more of our properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations and in some cases commence foreclosure proceedings on one or more of our properties; and
- our default under any loan with cross default provisions could result in a default on other indebtedness.

Any loan defaults or property foreclosures may impact our ability to access capital in the future on favorable terms or at all, as well as our relationships with and/or perception among lenders, investors, tenants, brokers, analysts, vendors, employees and other parties. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Influence Future Results of Operations.”

We may be unable to renew leases, lease vacant space or re-lease space as leases expire.

As of December 31, 2016, 8.2% of the rentable square footage of our portfolio was available for lease and leases representing 4.4% of the rentable square footage of our portfolio expired on December 31, 2016. In addition, leases representing 16.3% and 12.6% of the rentable square footage of the properties in our portfolio will expire in 2017 and 2018. We cannot assure you that our leases will be renewed or that our properties will be re-leased at rental rates equal to or above the current average rental rates or that we will not offer substantial rent abatements, tenant improvements, early termination rights or below-market renewal options to attract new tenants or retain existing tenants. If the rental rates for our properties decrease, or if our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space and space for which leases will expire, our financial condition, results of operations, cash flows and our ability to pay distributions on, and the per share trading price of, our common stock could be adversely affected.

We may be unable to identify and complete acquisitions of properties that meet our criteria, which may impede our growth.
Our business strategy involves the acquisition of industrial properties meeting certain investment criteria in our target markets. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategies. We may be unable to acquire properties identified as potential acquisition opportunities. Our ability to acquire properties on favorable terms, or at all, may expose us to the following significant risks:

- we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete;
- even if we enter into agreements for the acquisition of properties, these agreements are subject to conditions to closing, which we may be unable to satisfy; and
- we may be unable to finance any given acquisition on favorable terms or at all.

If we are unable to finance property acquisitions or acquire properties on favorable terms, or at all, our financial condition, results of operations, cash flows and our ability to pay distributions on, and the per share trading price of, our common stock could be adversely affected. In addition, failure to identify or complete acquisitions of suitable properties could slow our growth.

Our acquisition activities may pose risks that could harm our business.

As a result of our acquisitions, we may be required to incur debt and expenditures and issue additional common stock or common units to pay for the acquired properties. These acquisitions may dilute our stockholders' ownership interest, delay or prevent our profitability and may also expose us to risks such as:

- the possibility that we may not be able to successfully integrate acquired properties into our existing portfolio or achieve the level of quality with respect to such properties to which tenants of our existing properties are accustomed;
- the possibility that senior management may be required to spend considerable time negotiating agreements and integrating acquired properties, diverting their attention from our other objectives;
- the possibility that we may overpay for a property;
- the possible loss or reduction in value of acquired properties; and
- the possibility of pre-existing undisclosed liabilities regarding acquired properties, including environmental or asbestos liability, for which our insurance may be insufficient or for which we may be unable to secure insurance coverage.

We cannot assure you that the price for any future acquisitions will be similar to prior acquisitions. If our revenue does not keep pace with these potential acquisition and expansion costs, we may incur net losses. There is no assurance that we will successfully overcome these risks or other problems encountered with acquisitions.

We may obtain limited or no warranties when we purchase a property, which increases the risk that we may lose invested capital in or rental income from such property.

Many properties that we have acquired and expect to acquire in the future are sold in "as is" condition, on a "where is" basis and "with all faults," without any warranties of merchantability or fitness for a particular use or purpose. In other acquisitions, the purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. Also, many sellers of real estate are single-purpose entities without any other significant assets. The purchase of properties with limited warranties or from undercapitalized sellers increases the risk that we may lose some or all of our invested capital in the property (and in some cases, have liabilities greater than our investment) as well as the loss of rental income from such property.

We face significant competition for acquisitions of real properties, which may reduce the number of acquisition opportunities available to us and increase the costs of these acquisitions.

The current market for acquisitions of industrial properties in Southern California continues to be extremely competitive. This competition may increase the demand for our target properties and, therefore, reduce the number of suitable acquisition opportunities available to us and increase the prices paid for such acquisition properties. We also face significant competition for attractive acquisition opportunities from an indeterminate number of investors, including publicly traded and privately held REITs, private equity investors and institutional investment funds, some of which have greater financial resources than we do, a greater ability to borrow funds to acquire properties and the ability to accept more risk than we can prudently manage, including risks with respect to the geographic proximity of investments and the payment of higher acquisition prices. This competition will increase if investments in real estate become more attractive relative to other forms of investment. Competition for investments may reduce the number of suitable investment opportunities available to us and may have the effect of increasing prices paid for such acquisition properties and/or reducing the rents we can charge and, as a result, adversely affecting our operating results. The impact of the legalization of certain types of marijuana production, distribution and use in California could increase competition to acquire industrial properties within infill Southern California markets, which could reduce the supply

of suitable investment

opportunities available to us and may have the effect of increasing prices paid for such acquisition properties and, as a result, adversely affecting our operating results.

We may be unable to source off-market or lightly marketed deal flow in the future.

As of December 31, 2016, approximately 69% of the acquisitions by deal count completed by us since our initial public offering ("IPO") were acquired in off-market or lightly marketed transactions, which are transactions that are characterized by a lack of a formal marketing process and lack of widely disseminated marketing materials. Properties that are acquired by off-market or lightly marketed transactions are typically more attractive to us as a purchaser and are a core part of our strategic plan, because the absence of a formal or extended marketing/bidding period typically results in more favorable pricing, more favorable non-economic terms and often an ability to close transactions more rapidly. If we cannot obtain off-market or lightly marketed deal flow in the future, our ability to locate and acquire additional properties in the manner in which we have historically may be adversely affected and may cause us to revisit our core strategies.

Our future acquisitions may not yield the returns we expect.

Our future acquisitions and our ability to successfully operate the properties we acquire in such acquisitions may be exposed to the following significant risks:

- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;
- we may acquire properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result our results of operations and financial condition could be adversely affected;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown or greater than expected liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may not be able to control our operating costs or our expenses may remain constant or increase, even if our revenues do not increase, causing our results of operations to be adversely affected.

Factors that may adversely affect our ability to control operating costs include the need to pay for insurance and other operating costs, including real estate taxes, which could increase over time, the need to periodically repair, renovate and re-lease space, the cost of compliance with governmental regulation, including zoning and tax laws, the potential for liability under applicable laws, interest rate levels and the availability of financing. If our operating costs increase as a result of any of the foregoing factors, our results of operations may be adversely affected.

The expense of owning and operating a property is not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property. As a result, if revenues decline, we may not be able to reduce our expenses accordingly. Costs associated with real estate investments, such as real estate taxes, insurance, loan payments and maintenance, generally will not be reduced even if a property is not fully occupied or other circumstances cause our revenues to decrease.

High mortgage rates and/or unavailability of mortgage debt may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we may be unable to refinance the properties when the loans become due, or to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing

more money. In addition, to the extent we are

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unable to refinance the properties when the loans become due, we will have fewer debt guarantee opportunities available to offer under our Tax Matters Agreement, previously filed with the SEC.

Mortgage and other secured debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure on any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

Some of our financing arrangements involve balloon payment obligations, which may adversely affect our financial condition and our ability to make distributions.

Some of our financing arrangements require us to make a lump-sum or “balloon” payment at maturity. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” Our ability to satisfy a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to satisfy the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

Failure to hedge effectively against interest rate changes may adversely affect us.

Subject to the rules related to maintaining our qualification as a REIT, we may enter into hedging transactions to protect us from the effects of interest rate fluctuations on floating rate debt. As of December 31, 2016, we have six interest rate swaps in place for the purpose of mitigating our exposure to fluctuations in short-term interest rates. Two of these swaps have notional values of $30 million and $29.7 million, and currently fix the interest rate on our $59.7 million term loan as follows: (i) $30.0 million at 3.726% from January 15, 2015 to February 15, 2019 and (ii) $29.7 million at 3.910% for the period from July 15, 2015 to February 15, 2019. Two other swaps each have a notional value of $50.0 million, and were executed to fix the interest rate on our $100 million unsecured term loan facility as follows: (i) $50.0 million at 1.790% plus an applicable margin under the terms of the loan agreement from August 14, 2015 to December 14, 2018 and (ii) $50.0 million at 2.005% plus an applicable margin under the terms of the loan agreement from February 16, 2015 to December 14, 2018. The remaining two swaps have notional values of $125.0 million and $100.0 million, and were executed to fix the interest rate on our $225 million unsecured term loan facility as follows: (i) $125.0 million at 1.349% plus an applicable margin under the terms of the loan agreement from February 14, 2018 to January 14, 2022 and (ii) $100.0 million at 1.406% plus an applicable margin under the terms of the loan agreement from August 14, 2018 to January 14, 2022.

Our future hedging transactions may include entering into additional interest rate cap agreements or interest rate swap agreements. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging could reduce the overall returns on our investments. In addition, while such agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, we could incur significant costs associated with the settlement of the agreements or that the underlying transactions could fail to qualify as highly effective cash flow hedges under Financial Accounting Standards Board, or FASB, Accounting Standards Codification (“ASC”), Topic 815, Derivatives and Hedging. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) went into

effect in 2010. Dodd-Frank created a new regulatory framework for oversight of derivatives transactions by the Commodity Futures Trading Commission (the "CFTC") and the SEC. Among other things, Dodd-Frank subjects certain swap participants to new capital, margin and business conduct standards. In addition, Dodd-Frank contemplates that where appropriate in light of outstanding exposures, trading liquidity and other factors, swaps (broadly defined to include most hedging instruments other than futures) will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. While we believe we qualify for one or more of such exceptions (including with respect to our existing interest rate swaps),

the scope of these exceptions is still considered uncertain and will be further defined over time. Further, although we may qualify for exceptions, our derivatives counterparties may be subject to new capital, margin and business conduct requirements imposed as a result of the legislation, which may increase our transaction costs or make it more difficult for us to enter into additional hedging transactions on favorable terms. Our inability to enter into future hedging transactions on favorable terms, or at all, could increase our operating expenses and put us at increased exposure to interest rate risks.

Our unsecured credit facility, unsecured notes and certain of our other secured loans contain, and any other future indebtedness we incur may contain, various covenants, and the failure to comply with those covenants could materially adversely affect us.

Our unsecured credit facility, unsecured notes and certain of our other secured loans contain, and any other future indebtedness we incur may contain, certain covenants, which, among other things, restrict our activities, including, as applicable, our ability to sell the underlying property without the consent of the holder of such indebtedness, to repay or defease such indebtedness or to engage in mergers or consolidations that result in a change in control of our company. We are also subject to financial and operating covenants. Failure to comply with any of these covenants would likely result in a default under the applicable indebtedness that would permit the acceleration of amounts due thereunder and under other indebtedness and foreclosure of properties, if any, serving as collateral therefor.

Our unsecured credit facility, unsecured notes and certain of our other secured loans will restrict our ability to engage in some business activities.

Our unsecured credit facility and unsecured notes contains customary negative covenants and other financial and operating covenants that, among other things:

- restrict our ability to incur additional indebtedness;
- restrict our ability to make certain investments;
- limit our ability to make capital expenditures;
- restrict our ability to merge with another company;
- restrict our ability to make distributions to stockholders; and
- require us to maintain financial coverage ratios.

These limitations will restrict our ability to engage in some business activities that may otherwise be in our best interests. In addition, our unsecured credit facility, unsecured notes and secured term loan contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances.

Adverse changes in our credit rating could impair our ability to obtain future debt and equity financing on favorable terms, if at all.

Our credit rating is based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analysis of us. Our credit rating can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. There can be no assurance that we will be able to maintain our current credit rating. In the event our current credit rating is downgraded, it may become difficult or expensive to obtain additional financing or refinance existing obligations and commitments.

We may be subject to litigation or threatened litigation, which may divert management time and attention, require us to pay damages and expenses or restrict the operation of our business.

We may be subject to litigation or threatened litigation. In particular, we are subject to the risk of complaints by our tenants involving premises liability claims and alleged violations of landlord-tenant laws, which may give rise to litigation or governmental investigations, as well as claims and litigation relating to real estate rights, access, legal compliance or uses of our properties, stockholder claims or claims by limited partners in our Operating Partnership, vendor contractual claims and asset purchase and sale related claims. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. Additionally, whether or not any dispute actually proceeds to litigation, we may be required to devote significant management time and attention to its successful resolution (through litigation, settlement or otherwise), which would detract from our management's ability to focus on our business. Any such resolution could involve the payment of

damages or expenses by us, which may be significant, or involve our agreement with terms that restrict the operation of our business. We generally intend to vigorously defend ourselves; however, we cannot be

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certain of the ultimate outcomes of currently asserted claims or of those that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having an adverse effect on us and our stockholders. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage and could expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract directors, officers and other key employees.

Compliance or failure to comply with the Americans with Disabilities Act, California Energy Efficiency Standards, and other regulations could result in substantial costs.

Under the Americans with Disabilities Act and parallel California statutes, certain requirements related to access and use by disabled persons must be met. Noncompliance could result in the imposition of fines by the federal and state governments or the award of damages to private litigants. Under recently updated California energy efficiency standards, referred to as Title 24 or The Energy Efficiency Standards for Residential and Nonresidential Buildings, building owners may incur increased costs to renovate properties in order to meet changing energy efficiency standards. If we are required to make unanticipated expenditures or substantial modifications to our properties, whether to comply with the Americans with Disabilities Act and parallel California statutes, Title 24, or other changes in governmental rules and regulations, our financial condition, cash flows, results of operations, the market price of our shares of common stock and preferred stock and our ability to make distributions to our stockholders could be adversely affected.

Adverse U.S. and global market, economic and political conditions and other events or circumstances beyond our control could have a material adverse effect on us.

Another economic or financial crisis or rapid decline of the consumer economy, significant concerns over energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, or a declining real estate market in the U.S. can contribute to increased volatility, diminished expectations for the economy and the markets, and high levels of structural unemployment by historical standards. As was the case from 2008 through 2010, these factors, combined with volatile oil prices and fluctuating business and consumer confidence, can precipitate a steep economic decline.

Additionally, political uncertainty from matters such as the transitioning to a new presidential administration under President Donald J. Trump, changes in governmental policy on a variety of matters such as trade and manufacturing policies, and geopolitical matters such as the exit of the United Kingdom from the European Union and possible restructuring of trade agreements contribute to potential risks beyond our control. It is not possible to predict whether these economic and political occurrences might negatively impact the economies around the world, including the U.S. and Southern California. If these macro-economic and political issues are not managed appropriately, they could lead to currency, sovereign debt or banking crises, other financial and trade turmoil and uncertainty, and lower occupancy, rents and values for individual real estate in our markets.

Recurring U.S. debt ceiling and budget deficit concerns, together with sovereign debt conditions in Europe, also increase the possibility of additional downgrades of sovereign credit ratings and economic slowdowns. This was the case when Standard & Poor’s Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+” in August 2011. The impact of any downgrades to the U.S. government’s sovereign credit rating and that of other nations, or their perceived creditworthiness, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. These developments have the potential to cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, lowered credit ratings of the U.S. and other governments could create financial turmoil and uncertainty, which may exert downward pressure on the market price of our common stock.

Our business may be adversely affected by global market, political and economic challenges, including dislocations and volatility in the credit markets and general global economic uncertainty, including the effect of the slowing Chinese economy. These conditions may adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on, and the per share trading price of, our common stock as a result of the following potential consequences, among others:

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decreased demand for industrial space, which would cause market rental rates and property values to be negatively impacted;

- reduced values of our properties may limit our ability to dispose of assets at attractive prices, or at all, or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and
- our ability to obtain financing on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and redevelopment opportunities and refinance existing debt, reduce our returns from our acquisition and redevelopment activities and increase our future interest expense.

In addition, global market, political and economic conditions could adversely affect the businesses of many of our tenants. As a result, we may see increases in bankruptcies of our tenants and increased defaults by tenants, and we may experience higher vacancy rates and delays in re-leasing vacant space, which could negatively impact our business and results of operations.

Failure of the U.S. federal government to manage its fiscal matters may negatively impact the economic environment and adversely impact our results of operations.

An inability of the U.S. federal government to manage its fiscal matters, or manage its debt may result in the loss of economic confidence domestically and globally, reduce investment spending, increase borrowing costs, impact availability and cost of capital, and significantly reduce economic activity. Furthermore, a failure by the U.S. federal government to enact appropriate fiscal legislation may significantly impact the national and global economic and financial environment and affect our business and the businesses of our tenants. If economic conditions severely deteriorate as a result of government fiscal gridlock, our ability to lease space to our tenants may be significantly impacted.

An increase in interest rates could adversely impact our financial condition results of operations and cash flows.

Our financial condition, results of operations and cash flows could be significantly affected by changes in interest rates. During 2016, as a result of actions taken by the Federal Reserve, market interest rates increased. Future increases in market interest rates would increase our interest expense under our unhedged variable rate borrowings and would increase the costs of refinancing existing indebtedness or obtaining new debt. In addition, increases in market interest rates may result in a decrease in the value of our real estate and a decrease in the market price of our common stock. Increases in market interest rates may also adversely affect the securities markets generally, which could reduce the market price of our common stock without regard to our operating performance. Accordingly, unfavorable changes to our borrowing costs and stock price could significantly impact our ability to access new debt and equity capital going forward.

Changes in laws, regulations, and financial accounting standards may adversely affect our reported results of operations.

As a response, in large part, to perceived abuses and deficiencies in current regulations believed to have caused or exacerbated the recent global financial crisis, legislative, regulatory, and accounting standard-setting bodies around the world are engaged in an intensive, wide-ranging examination and rewriting of the laws, regulations, and accounting standards that have constituted the basic playing field of global and domestic business for several decades. In many jurisdictions, including the U.S., the legislative and regulatory response has included the extensive reorganization of existing regulatory and rule-making agencies and organizations, and the establishment of new agencies with broad powers. This reorganization has disturbed longstanding regulatory and industry relationships and established procedures.

The rule-making and administrative efforts have focused principally on the areas perceived as having contributed to the financial crisis, including banking, investment banking, securities regulation, and real estate finance, with spillover impacts on many other areas. These initiatives have created a significant degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses.

The global financial crisis and the aggressive government and accounting profession reaction thereto have occurred against a backdrop of increasing globalization and internationalization of financial and securities regulation that began prior to the recent financial crisis. As a result of this ongoing trend, financial and investment activities previously regulated almost exclusively at a local or national level are increasingly being regulated, or at least coordinated, on an international basis, with national rule-making and standard-setting groups relinquishing varying degrees of local and national control to achieve more uniform regulation and reduce the ability of market participants to engage in regulatory arbitrage between jurisdictions. This globalization trend has continued, arguably with an increased sense of urgency and importance, since the financial crisis.

This high degree of regulatory uncertainty, coupled with considerable additional uncertainty regarding the underlying condition and prospects of global, domestic, and local economies, has created a business environment that makes business planning and projections even more uncertain than is ordinarily the case for businesses in the financial and real estate sectors.

In the commercial real estate sector in which we operate, the uncertainties posed by various initiatives of accounting standard-setting authorities to fundamentally rewrite major bodies of accounting literature constitute a significant source of uncertainty as to the basic rules of business engagement. Changes in accounting standards and requirements, including the potential requirement that U.S. public companies prepare financial statements in accordance with international standards, proposed lease and investment property accounting standards, and the adoption of accounting standards likely to require the increased use of "fair value" measures, may have a significant effect on our financial results and on the results of our client

tenants, which would have a secondary impact on us. New accounting pronouncements and interpretations of existing pronouncements are likely to continue to occur at an accelerated pace as a result of recent Congressional and regulatory actions and continuing efforts by the accounting profession itself to reform and modernize its principles and procedures.

Although we have not been as directly affected by the wave of new legislation and regulation as banks and investment banks, we may also be adversely affected by new or amended laws or regulations; by changes in federal, state, or foreign tax laws and regulations; and by changes in the interpretation or enforcement of existing laws and regulations. In the U.S., the financial crisis and continuing economic slowdown prompted a variety of legislative, regulatory, and accounting profession responses.

The federal legislative response culminated in the enactment on July 21, 2010, of Dodd-Frank. Dodd-Frank contains far-reaching provisions that substantially revise, or provide for the revision of, longstanding, fundamental rules governing the banking and investment banking industries, and provide for the broad restructuring of the regulatory authorities in these areas. Dodd-Frank has resulted in, and is expected to continue to result in, profound changes in the ground rules for financial business activities in the U.S.

To a large degree, the impacts of the legislative, regulatory, and accounting reforms to date are still not clear. Many of the provisions of Dodd-Frank have extended implementation periods and delayed effective dates and will require extensive rule making by regulatory authorities. Further, actions by President Donald J. Trump's administration may alter Dodd-Frank implementation, interpretation and/or enforcement. While we do not currently expect Dodd-Frank to have a significant direct impact on us, Dodd-Frank's impact on us may not be known for an extended period of time. Dodd-Frank, including current and future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial or real estate industries or affecting taxation that are proposed or pending in the U.S. Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework within which we operate in ways that are not currently identifiable. Dodd-Frank also has resulted in, and is expected to continue to result in, substantial changes and dislocations in the banking industry and the financial services sector in ways that could have significant effects on, for example, the availability and pricing of unsecured credit, commercial mortgage credit, and derivatives, such as interest rate swaps, which are important aspects of our business. Accordingly, new laws, regulations, and accounting standards, as well as changes to, or new interpretations of, currently accepted accounting practices in the real estate industry may adversely affect our results of operations.

Changes in the system for establishing U.S. accounting standards may result in adverse fluctuations in our reported asset and liability values and earnings, and may materially and adversely affect our reported results of operations.

Accounting for public companies in the U.S. has historically been conducted in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") as established by the Financial Accounting Standards Board ("FASB"), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The International Accounting Standards Board ("IASB") is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards ("IFRS"). IFRS generally reflects accounting practices that prevail in Europe and in developed nations in other parts of the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on "fair value" models of accounting for assets and liabilities than GAAP. "Fair value" models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

The SEC is still analyzing and considering whether IFRS should be incorporated into the U.S. financial reporting system. It is unclear at this time how and when the SEC will propose that GAAP and IFRS be harmonized if the decision to incorporate is adopted. In addition, incorporating a new method of accounting and adopting IFRS will be a complex undertaking. We may need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately adopted are not now known, the magnitude of costs associated with this conversion is uncertain.

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared and we may not be able to accurately report our financial results.

We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments.

These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses, and changes to our business will necessitate ongoing changes to our internal control systems and processes. We may need to upgrade our systems or create new systems; implement additional financial and management controls, reporting systems and procedures; expand our internal audit function; and hire additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and price of our common stock.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal controls over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continually reviews the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements or restatements of our financial statements or a decline in the price of our securities.

We face significant competition in the leasing market, which may decrease or prevent increases of the occupancy and rental rates of our properties.

We compete with numerous developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial tenant concessions or tenant rights (including rent abatements, tenant improvements, early termination rights or below-market renewal options) in order to retain tenants when our tenants' leases expire or to attract new tenants.

We may be required to make rent or other concessions and/or significant capital expenditures to improve our properties in order to retain and attract tenants.

Occupancy and rental rates are the primary drivers of our revenue and significantly impact us and our stockholders. In order to attract and retain tenants, we may be required to make rent or other concessions to tenants, accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants. Additionally, when a tenant at one of our properties does not renew its lease or otherwise vacates its space, it is likely that, in order to attract one or more new tenants, we will be required to expend funds for improvements in the vacated space. As a result, we may have to make significant capital or other expenditures in order to retain tenants whose leases expire and to attract new tenants in sufficient numbers. Additionally, we may need to raise capital to make such expenditures. If we are unable to do so or if capital is otherwise unavailable, we may be unable to make the required expenditures. This could result in non-renewals by tenants upon expiration of their leases and/or an inability to attract new tenants.

A substantial majority of the leases at our properties are with tenants who have non-investment grade credit ratings, which may result in our leasing to tenants that are more likely to default in their obligations to us than a tenant with an investment grade credit rating.

A substantial majority of the leases at our properties are with tenants who have non-investment grade credit ratings. The ability of a non-investment grade tenant to meet its obligations to us cannot be considered as well assured as that of an investment grade tenant. All of our tenants may face exposure to adverse business or economic conditions which could lead to an inability to meet their obligations to us. However, non-investment grade tenants may not have the financial capacity or liquidity to adapt to these conditions or may have less diversified businesses, which may exacerbate the effects of adverse conditions on their businesses. Moreover, the fact that a substantial majority of our

tenants are not investment grade may cause investors or lenders to view our cash flows as less stable, which may increase our cost of capital, limit our financing options or adversely affect the trading price of our common stock.

Some of our tenants have historically filed for bankruptcy protection or become insolvent. This may occur with tenants in the future, and we are particularly at risk because of the credit rating of much of our tenant base. The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the U.S. Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might authorize the tenant to reject and terminate their lease with us. Our claim against the tenant for unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Also, our claim for unpaid rent would likely not be paid in full. Failed banks or banks involved in government-facilitated sales are subject to the Federal Deposit Insurance Corporation's (the "FDIC") statutory authority and receivership process. The FDIC has receivership powers that are substantially broader than those of a bankruptcy trustee. In dealing with the FDIC in any repudiation of a lease, we as landlord are likely to be in a less favorable position than with a debtor in a bankruptcy proceeding. Many of the creditor protections that exist in a bankruptcy proceeding do not exist in a FDIC receivership.

The actual rents we receive for the properties in our portfolio may be less than our asking rents, and we may experience lease roll down from time to time.

As a result of various factors, including competitive pricing pressure in our submarkets, adverse conditions in the Southern California real estate market, a general economic downturn and a decline in the desirability of our properties compared to other properties in our submarkets, we may be unable to realize the asking rents for properties in our portfolio. In addition, the degree of discrepancy between our asking rents and the actual rents we are able to obtain may vary both from property to property and among different leased spaces within a single property. In addition, depending on fluctuations in asking rental rates at any given time, from time to time rental rates for expiring leases in our portfolio may be higher than starting rental rates for new leases. We cannot assure you that leases will be renewed or that our properties will be re-let at rental rates equal to or above our current average rental rates or that substantial rent abatements, tenant improvements, early termination rights or below-market renewal options will not be offered to attract new tenants or retain existing tenants. If we are unable to obtain rental rates comparable to our asking rents for properties in our portfolio, our ability to generate cash flow growth will be negatively impacted. Significant rent reductions could result in a write-down of one or more of our consolidated properties and/or adversely affect the market price of our common stock, our financial condition and our results of operations, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders. Moreover, the resale value of a property could be diminished because the market value of a particular property depends principally upon the value of the leases of such property.

We may acquire properties or portfolios of properties through tax-deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell such assets.

In the future, we may acquire properties or portfolios of properties through tax-deferred contribution transactions in exchange for partnership interests in our Operating Partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we are able to deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

Our real estate development, redevelopment and repositioning activities are subject to risks particular to development,redevelopment and repositioning.

We may engage in development, redevelopment or repositioning activities with respect to certain of our properties. To the extent that we do so, we will be subject to the following risks associated with such development, redevelopment and repositioning activities:

- unsuccessful development, redevelopment or repositioning opportunities could result in direct expenses to us;
- construction, redevelopment or repositioning costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable;
- time required to complete the construction, redevelopment or repositioning of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;

- contractor and subcontractor disputes, strikes, labor disputes or supply disruptions, which may cause delays or increase costs;
- failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all;
- delays with respect to obtaining or the inability to obtain necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws;

- occupancy rates and rents of a completed project may not be sufficient to make the project profitable;
- our ability to dispose of properties developed, redeveloped or repositioned with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and
- the availability and pricing of financing to fund our development activities on favorable terms or at all.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development, redevelopment or repositioning activities once undertaken.

Our success depends on key personnel whose continued service is not guaranteed, and the loss of one or more of our key personnel could adversely affect our ability to manage our business and to implement our growth strategies, or could create a negative perception in the capital markets.

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Messrs. Schwimmer, Frankel and Khan who have extensive market knowledge and relationships and exercise substantial influence over our operational, financing, acquisition and disposition activity. Our ability to retain our senior management, particularly Messrs. Schwimmer, Frankel and Khan or to attract suitable replacements should any members of our senior management leave, is dependent on the competitive nature of the employment market. We have not obtained and do not expect to obtain key man life insurance on any of our key personnel. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry participants. Further, the loss of a member of our senior management team could be negatively perceived in the capital markets.

Potential losses, including from adverse weather conditions and natural disasters, may not be covered by insurance.

We carry commercial property, liability, environmental and terrorism coverage on all the properties in our consolidated portfolio under a blanket insurance policy, in addition to other coverages that are appropriate for certain of our properties. We will select policy specifications and insured limits that we believe to be appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. Some of our policies are insured subject to limitations involving significant deductibles or co-payments and policy limits that may not be sufficient to cover losses. In addition, we may discontinue terrorism or other insurance on some or all of our properties in the future if the cost of premiums for any such policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. Currently, we do not carry insurance for certain types of extraordinary losses, such as loss from earthquakes, riots, war and wildfires because we believe such coverage is cost prohibitive or available at a disproportionately high cost. As a result, we may incur significant costs in the event of loss from earthquakes, wildfires, riots, war and other uninsured losses. If we do obtain insurance for any of those risks in the future, such insurance cost may impact the operating costs and net cash flow of our properties.

If we or one or more of our tenants experiences a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future as the costs associated with property and casualty renewals may be higher than anticipated.

All of the properties in our portfolio are located in areas that are prone to earthquake activity and we are not insured against such an event.

All of the properties in our portfolio are located in Southern California, an area that is particularly prone to seismic activity. According to the U.S. Geological Service, in places where fault systems do not experience frequent tiny shocks and a few moderate earth tremors, strain can build up, producing earthquakes when the strain on tectonic plates releases. In Southern California, the largest most recent quake occurred in 1994 in Northridge, over 20 years ago. A severe earthquake in the Southern California region could result in uninsured damage to a subset or even a substantial portion of our portfolio and could significantly impact our cash flow.

We do not currently carry insurance for losses resulting from earthquakes because we do not believe appropriate coverage is available at a cost commensurate with the loss risk. We will continue to monitor third-party earthquake insurance pricing and conditions and may consider obtaining third-party coverage in the future if we deem it cost

effective. However, until we obtain such coverage, we would be required to bear all losses, including loss of invested capital and anticipated future cash

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flows, occurring at these properties as a result of an earthquake. If we do obtain insurance for earthquake risks in the future, such insurance cost may impact the operating costs and net cash flow of our properties.

We may not be able to rebuild our existing properties to their existing specifications if we experience a substantial or comprehensive loss of such properties.

In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications. Further, reconstruction or improvement of such a property would likely require significant upgrades to meet zoning and building code requirements. Environmental and legal restrictions could also restrict the rebuilding of our properties.

Existing conditions at some of our properties may expose us to liability related to environmental matters.

Independent environmental consultants conducted a Phase I or similar environmental site assessment on most of our properties at the time of their acquisition or in connection with subsequent financings. Such Phase Is or similar environmental site assessments are limited in scope and may not include or identify all potential environmental liabilities or risks associated with the relevant properties. We do not intend to obtain new or updated Phase Is or similar environmental site assessments in the ordinary course of business absent a specific need. This may expose us to liability related to unknown or unanticipated environmental matters. Unless required by applicable laws or regulations, we may not further investigate, remedy or ameliorate the liabilities disclosed in the existing Phase Is or similar environmental site assessments and this failure may expose us to liability in the future.

We may be unable to sell a property if or when we decide to do so.

We expect to hold the various real properties until such time as we decide that a sale or other disposition is appropriate. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties. We cannot predict the various market conditions affecting the industrial real estate market which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure you that we will be able to sell any properties identified for sale at favorable pricing and may not receive net income from the transaction.

Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition and disputes between us and our co-venturers.

We have co-invested in the past, and may co-invest again in the future, with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives, and they may have competing interests in our markets that could create conflict of interest issues. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. In addition, prior consent of our joint venture partners may be required for a sale or transfer to a third party of our interests in the joint venture, which would restrict our ability to dispose of our interest in the joint venture. If we become a limited partner or non-managing member in any partnership or limited liability company and such entity takes or expects to take actions that could jeopardize our company's status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for

the actions of our third-party partners or co-venturers. Our joint ventures may be subject to debt and, in volatile credit markets, the refinancing of such debt may require equity capital calls.

Our growth depends on external sources of capital that are outside of our control and may not be available to us on commercially reasonable terms or at all.

In order to qualify and maintain our qualification as a REIT, we are required under the Code, among other things, to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction, including any net capital gains. Because of these distribution requirements, we are highly dependent on third-party sources to fund capital needs, including any necessary acquisition financing. We may not be able to obtain such financing on favorable terms or at all and any additional debt we incur will increase our leverage and likelihood of default. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the trading price of our common stock.

In recent years, the capital markets have been subject to periodic significant disruptions. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business, implement our growth plan and fund other cash requirements. If we cannot obtain capital from third-party sources on favorable terms or at all when desired, we may not be able to acquire or develop properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT. To the extent that capital is not available to acquire properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our stock.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology ("IT") networks and related systems.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day to day operations and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases, are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk. A security breach or other significant disruption involving our IT networks and related systems could disrupt the proper functioning of our networks and systems; result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines; result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT; result in the unauthorized access to, and destruction, loss,

theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes; require significant management attention and resources to remedy any damages that result; subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or damage our reputation among our tenants and investors generally.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and the real estate industry.

Our ability to pay expected dividends to our stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events include many of the risks set forth above under "—Risks Related to Our Business and Operations," as well as the following:

- local oversupply or reduction in demand for industrial space;
- adverse changes in financial conditions of buyers, sellers and tenants of properties;
- vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options, and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance premiums, utilities, real estate taxes and state and local taxes;
- civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes, floods and wildfires, which may result in uninsured or underinsured losses;
- decreases in the market value of our properties;
- changing submarket demographics; and
- changing traffic patterns.

In addition, periods of economic downturn or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties within a specific time period is subject to certain limitations imposed by our Tax Matters Agreement, as well as weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.

In addition, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forgo or defer sales of properties that otherwise would be in our best interest. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms.

Declining real estate valuations and impairment charges could materially adversely affect us.

We intend to review the carrying value of our properties when circumstances, such as adverse market conditions, indicate a potential impairment may exist. We intend to base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the property's use and eventual disposition on an undiscounted basis. We intend to consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of a real estate investment, an impairment loss will be recorded to the extent that the carrying value exceeds the estimated fair value of the property.

Impairment losses have a direct impact on our operating results, because recording an impairment loss results in a negative adjustment to our publicly reported operating results. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. A worsening real estate market may cause us to reevaluate the assumptions used in our impairment analysis.

Adverse economic conditions and the dislocation in the credit markets could materially adversely affect us.

Economic conditions can be unpredictable and vary greatly, creating uncertainty and in some cases severely impacted the lending and capital markets, particularly for real estate. When occurring, these conditions may limit the amount of indebtedness we are able to obtain and our ability to refinance our indebtedness, and may impede our ability to develop new properties and to replace construction financing with permanent financing, which could result in our having to sell properties at inopportune times and on unfavorable terms.

Any lack of availability of debt financing may require us to rely more heavily on additional equity issuances, which may be dilutive to our current stockholders, or on less efficient forms of debt financing.

Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We have acquired properties in markets that are new to us. For example, our predecessor business acquired properties in Arizona and Illinois as part of an acquisition of a portfolio of properties that included four other properties located in our target markets. When we acquire properties located in new markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures.

We may choose not to distribute the proceeds of any sales of real estate to our stockholders, which may reduce the amount of our cash distributions to stockholders.

We may choose not to distribute any proceeds from the sale of real estate investments to our stockholders. Instead, we may elect to use such proceeds to:

- acquire additional real estate investments;
- repay debt;
- buy out interests of any partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures on our other properties.

Any decision to retain or invest the proceeds of any sales, rather than distribute such proceeds to our stockholders may reduce the amount of cash distributions to equity holders.

If any of our insurance carriers becomes insolvent, we could be adversely affected.

We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at significant risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency would likely adversely affect us.

Our property taxes could increase due to property tax rate changes or reassessment, which could adversely impact our cash flows.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. All of our properties located in California may be reassessed as a result of various factors. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the

past. If the property taxes we pay increase, our cash flow would be adversely impacted to the extent that we are not reimbursed by tenants for those taxes.

We could incur significant costs related to government regulation and litigation over environmental matters.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating to or from such property, including costs to investigate, clean up such contamination and liability for harm to natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines or other costs could exceed the value of the property and in some cases our aggregate net asset value. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal, property, or natural resources damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property, or adjacent properties, for commercial or industrial purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such material known or suspected to exist at a number of our properties which may result in further investigation, remediation, or deed restrictions. Further, certain of our properties are adjacent to or near other properties that have contained or currently contain petroleum or other hazardous substances, or at which others have engaged or may engage in activities that may release such hazardous substances. Adjacent property uses are identified in standard ASTM procedures in Phase I environmental studies, which we obtain on all property acquisitions. In addition to a blanket environmental insurance policy, as needed, we may obtain environmental insurance policies on commercially reasonable terms that provide coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations. However, these policies are subject to certain limits, deductibles and exclusions, and insurance may not fully compensate us for any environmental liability. From time to time, we may acquire properties with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return. We usually perform a Phase I environmental site assessment at any property we are considering acquiring. In connection with certain financing transactions our lenders have commissioned independent environmental consultants to conduct Phase I environmental site assessments on certain of the properties in our initial portfolio. However, we have not always received copies of the Phase I environmental site assessment reports commissioned by our lenders and, as such, may not be aware of all potential or existing environmental contamination liabilities at the properties in our initial portfolio. In addition, Phase I environmental site assessments are limited in scope and do not involve sampling of soil, soil vapor, or groundwater, and these assessments may not include or identify all potential environmental liabilities or risks associated with the property. Even where subsurface investigation is performed, it can be very difficult to ascertain the full extent of environmental contamination or the costs that are likely to flow from such contamination. We cannot assure you that the Phase I environmental site assessment or other environmental studies identified all potential environmental liabilities, or that we will not face significant remediation costs or other environmental contamination that makes it difficult to sell any affected properties. Also, we have not always implemented actions recommended by these assessments, and recommended investigation and remediation of known or suspected contamination has not always been performed. Contamination may exist at many of our properties, and governmental regulators or third parties could seek to force us to contribute to investigation or remediation or known or suspected contamination. As a result, we could potentially incur material liability for these issues.

Environmental laws also govern the presence, maintenance and removal of asbestos-containing building materials, or ACBM, and may impose fines and penalties for failure to comply with these requirements. Such laws require that

owners or operators of buildings containing ACBM (and employers in such buildings) properly manage and maintain the asbestos, adequately notify or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building. In addition, the presence of ACBM in our properties may expose us to third-party liability (e.g., liability for personal injury associated with exposure to asbestos).

In addition, the properties in our portfolio also are subject to various federal, state and local environmental and health and safety requirements, such as state and local fire requirements. Moreover, some of our tenants routinely handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such

environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities. Environmental liabilities could affect a tenant's ability to make rental payments to us. In addition, changes in laws could increase the potential liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us. Further, these environmental, health, and safety laws could become more stringent in the future, and this could subject us or our tenants to new or greater liability.

We cannot assure you that remedial measures and other costs or liabilities incurred as a result of environmental issues will be immaterial to our overall financial position. If we do incur material environmental liabilities in the future, we may face significant remediation costs, and we may find it difficult to sell any affected properties.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury is alleged to have occurred.

We may incur significant costs complying with various federal, state and local laws, regulations and covenants that are applicable to our properties.

The properties in our portfolio are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances and zoning restrictions may restrict our use of our properties and may require us to obtain approval from local officials or restrict our use of our properties and may require us to obtain approval from local officials of community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic or hazardous material abatement requirements. There can be no assurance that existing laws and regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our growth strategy may be affected by our ability to obtain permits, licenses and zoning relief.

In addition, federal and state laws and regulations, including laws such as the Americans with Disabilities Act, or ADA, and the Fair Housing Amendment Act of 1988, or FHAA, impose further restrictions on our properties and operations. Under the ADA and the FHAA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA or the FHAA. If one or more of the properties in our portfolio is not in compliance with the ADA, the FHAA or any other regulatory requirements, we may be required to incur additional costs to bring the property into compliance, including the removal of access barriers, and we might incur governmental fines or the award of damages to private litigants. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures.

Changes in the method of determining the London Interbank Offered Rate ("LIBOR") may adversely affect interest expense related to outstanding debt.

We hold certain debt instruments on which interest rates move in direct relation to LIBOR, depending on our selection of borrowing options. Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of daily LIBOR across a range of maturities and currencies may have underreported, over reported, or otherwise manipulated the interbank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse

reputational or other consequences that might have resulted from reporting interbank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with a number of their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations have been instigated by regulators and government authorities in various jurisdictions. Other member banks may also enter into such settlements with, or have proceedings brought by, their regulators or law

enforcement agencies in the future. If manipulation of LIBOR occurred, it may have resulted in LIBOR having been artificially lower (or higher) than it would otherwise have been. Any such manipulation could have occurred over a substantial period of time.

On September 28, 2012, British regulators published a report on the review of LIBOR. The report concluded that LIBOR should be retained as a benchmark, but recommended a comprehensive reform of LIBOR, including replacing the BBA with a new independent administrator of LIBOR. Based on this report, final rules for the regulation and supervision of LIBOR by the Financial Conduct Authority (the "FCA") were published and came into effect on April 2, 2013 (the "FCA Rules"). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts-of-interest policy and appropriate systems and controls. In 2014, NYSE Euronext took over the administration of LIBOR. It is not possible to predict the effect of the FCA Rules, any changes in the methods pursuant to which LIBOR is determined, the administration of LIBOR by NYSE Euronext, and any other reforms to LIBOR that will be enacted in the United Kingdom and elsewhere. In addition, any changes announced by the FCA, the BBA, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which LIBOR is determined, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the level of the index. Fluctuation or discontinuation of LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate swaps to help mitigate our exposure to such interest rate risk, on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to changes in interest rates.

Risks Related to Our Organizational Structure

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of common units, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company under Maryland law in connection with their management of our company. At the same time, we, as the general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners under Maryland law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our fiduciary duties and obligations as the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company.

Under Maryland law, a general partner of a Maryland limited partnership has fiduciary duties of loyalty and care to the partnership and its partners and must discharge its duties and exercise its rights as general partner under the partnership agreement or Maryland law consistent with the obligation of good faith and fair dealing. The partnership agreement provides that, in the event of a conflict between the interests of our operating partnership or any partner, on the one hand, and the separate interests of our company or our stockholders, on the other hand, we, in our capacity as the general partner of our operating partnership, may give priority to the separate interests of our company or our stockholders (including with respect to tax consequences to limited partners, assignees or our stockholders), and, in the event of such a conflict, any action or failure to act on our part or on the part of our directors that gives priority to the separate interests of our company or our stockholders that does not result in a violation of the contract rights of the limited partners of our operating partnership under its partnership agreement does not violate the duty of loyalty or any other duty that we, in our capacity as the general partner of our operating partnership, owe to our operating partnership and its partners or violate the obligation of good faith and fair dealing.

Additionally, the partnership agreement provides that we generally will not be liable to our operating partnership or any partner for any action or omission taken in our capacity as general partner, for the debts or liabilities of our operating partnership or for the obligations of the operating partnership under the partnership agreement, except for liability for our fraud, willful misconduct or gross negligence, pursuant to any express indemnity we may give to our operating partnership or in connection with a redemption. Our operating partnership must indemnify us, our directors

and officers, officers of our operating partnership and our designees from and against any and all claims that relate to the operations of our operating partnership, unless (1) an act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) the person actually received an improper personal benefit in violation or breach of the partnership agreement or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. Our operating partnership must also pay or reimburse the reasonable expenses of any such person in advance of a final disposition of the proceeding upon its receipt of a written affirmation of the person's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay any amounts paid or advanced if it is ultimately determined that the person did not meet the standard of conduct for indemnification. Our operating

partnership is not required to indemnify or advance funds to any person with respect to any action initiated by the person seeking indemnification without our approval (except for any proceeding brought to enforce such person's right to indemnification under the partnership agreement) or if the person is found to be liable to our operating partnership on any portion of any claim in the action. No reported decision of a Maryland appellate court has interpreted provisions similar to the provisions of the partnership agreement of our operating partnership that modify and reduce our fiduciary duties or obligations as the general partner or reduce or eliminate our liability to our operating partnership and its partners, and we have not obtained an opinion of counsel as to the enforceability of the provisions set forth in the partnership agreement that purport to modify or reduce the fiduciary duties and obligations that would be in effect were it not for the partnership agreement.

Some of our directors and executive officers have outside business interests, including interests in real estate-related businesses, and, therefore, may have conflicts of interest with us.

Certain of our executive officers and directors have outside business interests, including interests in real estate-related businesses, and may own equity securities of public and private real estate companies. Our executive officers' and directors' interests in these entities could create a conflict of interest, especially when making determinations regarding our renewal of leases with tenants subject to these leases. Our executive officers' involvement in other businesses and real estate-related activities could divert their attention from our day-to-day operations, and state law may limit our ability to enforce any non-compete agreements.

We could increase the number of authorized shares of stock, classify and reclassify unissued stock and issue stock without stockholder approval.

Our board of directors, without stockholder approval, has the power under our charter to amend our charter to increase the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue, to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into one or more classes or series of stock and set the terms of such newly classified or reclassified shares. As a result, we may issue classes or series of common stock or preferred stock with preferences, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common stock. Although our board of directors has no such intention at the present time, it could establish a class or series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Certain provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Certain provisions of the Maryland General Corporation Law ("MGCL"), may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "Business combination" provisions that, subject to certain exceptions, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price or supermajority stockholder voting requirements on these combinations; and
- "Control share" provisions that provide that holders of "control shares" of our company (defined as shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise voting power in the election of directors within one of three increasing ranges) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of the voting power of issued and outstanding "control shares," subject to certain exceptions) have no voting rights with respect to their control shares, except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter,

excluding all interested shares.

As permitted by the MGCL, our bylaws provide that we will not be subject to the control share provisions of the MGCL and our board of directors has, by resolution, exempted us from the business combination between us and any other person. However, we cannot assure you that our board of directors will not revise the bylaws or such resolution in order to be subject to

such business combination and control share provisions in the future. Notwithstanding the foregoing, an alteration or repeal of the board resolution exempting such business combinations will not have any effect on any business combinations that have been consummated or upon any agreements existing at the time of such modification or repeal.
Certain provisions of the MGCL permit the board of directors of a Maryland corporation with at least three independent directors and a class of stock registered under the Exchange Act without stockholder approval and regardless of what is currently provided in its charter or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. These provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for our company or of delaying, deferring or preventing a change in control under circumstances that otherwise could provide the holders of shares of our stock with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby it elects to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on the board of directors.

Certain provisions in the partnership agreement of our operating partnership may delay or prevent unsolicited acquisition of us.

Provisions of the partnership agreement of our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes of our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders or limited partners might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- a requirement that we may not be removed as the general partner of our operating partnership without our consent;
- transfer restrictions on common units;
- our ability, as general partner, in some cases, to amend the partnership agreement and to cause our operating partnership to issue additional partnership interests with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of our stockholders or the limited partners; and
- the right of the limited partners to consent to certain transfers of our general partnership interest (whether by sale, disposition, statutory merger or consolidation, liquidation or otherwise).

Our charter and bylaws, the partnership agreement of our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

The Tax Matters Agreement limits our ability to sell or otherwise dispose of certain properties, even though a sale or disposition may otherwise be in our stockholders' best interest.

In connection with the formation transactions, we entered into a Tax Matters Agreement with certain limited partners of our operating partnership, including Messrs. Ziman, Schwimmer and Frankel, that provides that if we dispose of any interest with respect to certain properties in our initial portfolio in a taxable transaction during the period from the completion of the IPO (July 24, 2013) through the seventh anniversary of such completion (July 24, 2020), our operating partnership will indemnify such limited partners for their tax liabilities attributable to their share of the built-in gain that exists with respect to such property interest as of the time of the IPO and tax liabilities incurred as a result of the indemnification payment; provided that, subject to certain exceptions and limitations, such indemnification rights will terminate for any such protected partner that sells, exchanges or otherwise disposes of more than 50% of his or her common units. We have no present intention to sell or otherwise dispose of these properties or interest therein in taxable transactions during the restriction period. If we were to trigger the tax protection provisions under this agreement, our operating partnership would be required to pay damages in the amount of the taxes owed by these limited partners (plus additional damages in the amount of the taxes incurred as a result of such payment). As a result, although it may otherwise be in our stockholders' best interest that we sell one of these properties, it may be economically prohibitive for us to do so because of these obligations.

The Tax Matters Agreement may require our operating partnership to maintain certain debt levels that otherwise would not be required to operate our business.

The Tax Matters Agreement provides that, during the period beginning from the date of the completion of our IPO (July 24, 2013) through the period ending on the twelfth anniversary of our IPO (July 24, 2025), our operating partnership will offer certain limited partners the opportunity to guarantee its debt, and following such period, our operating partnership will use

commercially reasonable efforts to provide such limited partners who continue to own at least 50% of the common units they originally received in the formation transactions with debt guarantee opportunities. Our operating partnership will be required to indemnify such limited partners for their tax liabilities resulting from our failure to make such opportunities available to them (plus an additional amount equal to the taxes incurred as a result of such indemnity payment). Among other things, this opportunity to guarantee debt is intended to allow the participating limited partners to defer the recognition of gain in connection with the formation transactions. These obligations may require us to maintain more or different indebtedness than we would otherwise require for our business.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our investment and financing policies are exclusively determined by our board of directors. Accordingly, our stockholders do not control these policies. Further, our charter and bylaws do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

As permitted by Maryland law, our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and was material to the cause of action adjudicated.

In addition, our charter authorizes us to obligate our company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those and certain other capacities to the maximum extent permitted by Maryland law in effect from time to time. Generally, Maryland law permits a Maryland corporation to indemnify its present and former directors and officers except in instances where the person seeking indemnification acted in bad faith or with active and deliberate dishonesty, actually received an improper personal benefit in money, property or services or, in the case of a criminal proceeding, had reasonable cause to believe that his or her actions were unlawful. Under Maryland law, a Maryland corporation also may not indemnify a director or officer in a suit by or on behalf of the corporation in which the director or officer was adjudged liable to the corporation or for a judgment of liability on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct; however, indemnification for an adverse judgment in a suit by us or on our behalf, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, our stockholders' ability to recover damages from such director or officer will be limited.

We are a holding company with no direct operations and, as such, we will rely on funds received from our operating partnership to pay liabilities, and the interests of our stockholders will be structurally subordinated to all liabilities and obligations of our operating partnership and its subsidiaries.

We are a holding company and conduct substantially all of our operations through our operating partnership. We do not have, apart from an interest in our operating partnership, any independent operations. As a result, we rely on distributions from our operating partnership to continue to pay any dividends we might declare on shares of our common stock. We also rely on distributions from our operating partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we are a holding company, stockholder claims will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the

event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

Our operating partnership may issue additional common units to third parties without the consent of our stockholders, which would reduce our ownership percentage in our operating partnership and would have a dilutive effect on the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders.

As of December 31, 2016, we own 97.1% of the outstanding common units in our Operating Partnership and we may, in connection with future acquisitions of properties or otherwise, cause our operating partnership to issue additional common units to third parties. Such issuances would reduce our ownership percentage in our operating partnership and affect the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders.

Risks Related to Our Status as a REIT

Failure to maintain our qualification as a REIT would have significant adverse consequences to us and the per share trading price of our common stock.

We have elected to be taxed as a REIT for federal income tax purposes commencing with our initial taxable year ended December 31, 2013. We intend to continue to meet the requirements for taxation as a REIT. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in this Form 10-K are not binding on the IRS or any court. Therefore, we cannot guarantee that we will qualify as a REIT, or that we will remain qualified as such in the future. If we were to fail to qualify as a REIT in any taxable year we will face serious tax consequences that would substantially reduce the funds available for distribution to you for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Any such corporate tax liability could be substantial and would reduce our cash available for, among other things, our operations and distributions to stockholders. In addition, if we fail to qualify as a REIT, we will not be required to make distributions to our stockholders. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code, or the Treasury Regulations, is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the ownership of our stock, requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as “rents from real property.” Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local income, property and excise taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our taxable REIT subsidiary will be subject to tax as a regular corporation in the jurisdictions it operates.

If our operating partnership failed to qualify as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our operating partnership will be treated as a partnership for federal income tax purposes. As a partnership, our operating partnership will not be subject to federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our operating

partnership's income. We cannot assure you, however, that the IRS will not challenge the status of our operating partnership or any other subsidiary partnership in which we own an interest as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership or any such other subsidiary partnership as an entity taxable as a corporation for federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our operating partnership or

any subsidiary partnerships to qualify as a partnership could cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

Our taxable REIT subsidiaries will be subject to federal income tax, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our taxable REIT subsidiaries are not conducted on arm's length terms.

We own an interest in one or more taxable REIT subsidiaries, and may acquire securities in additional taxable REIT subsidiaries in the future. A taxable REIT subsidiary is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a taxable REIT subsidiary. If a taxable REIT subsidiary owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a taxable REIT subsidiary. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to federal income tax as a regular C corporation. In addition, a 100% excise tax will be imposed on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm's length basis.

To maintain our REIT qualification, we may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, determined without regard to the dividends paid deduction and excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income (determined without regard to the deduction for dividends paid) each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. Accordingly, we may not be able to retain sufficient cash flow from operations to meet our debt service requirements and repay our debt. Therefore, we may need to raise additional capital for these purposes, and we cannot assure you that a sufficient amount of capital will be available to us on favorable terms, or at all, when needed. Further, in order to maintain our REIT qualification and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market's perception of our growth potential, our current debt levels, the per share trading price of our common stock, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to "qualified dividend income" payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory

safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement could cause us to: (1) sell assets in adverse market conditions; (2) borrow on unfavorable terms; or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could have an adverse effect on our business results, profitability and ability to execute our business plan. Moreover, if we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, our consolidated portfolio consists of 136 wholly-owned properties located in Southern California infill markets totaling approximately 15.0 million rentable square feet.

The table below sets forth relevant information with respect to the operating properties in our consolidated portfolio as of December 31, 2016.

Property Address	City	Number of Buildings	Asset Type	Year Built / Renovated(1)	Rentable Square Feet	Percentage of Rentable Square Feet(2)	Number of Leases	Occupancy	Annualized Base Rent(3)	Percentage of Total Annualized Base Rent(4)	Total Annualized Base Rent per Square Foot(5)
Los Angeles - Greater San Fernando Valley											
901 W. Alameda Ave.	Burbank	1	Creative Office	1969 / 2009	44,924	0.3%	3	100.0%	$1,467,569	1.2%	$32.67
10635 Vanowen St.	Burbank	1	Warehouse / Light Manufacturing	1977	31,037	0.2%	4	100.0%	309,626	0.3%	9.98
	Burbank	2		1950 / 2004	130,800	0.9%	1	100.0%	1,161,504	1.0%	8.88

2980 & 2990 N San Fernando Road			Warehouse / Light Manufacturing								
9401 De Soto Ave. [6]	Chatsworth	1	Warehouse / Light Manufacturing	1983	150,831	1.0%	—	— %	—	— %	—
9120 Mason Ave.	Chatsworth	1	Warehouse / Distribution	1967 / 1999	319,348	2.1%	1	100.0%	1,900,180	1.6%	5.95
21040 Nordoff Street; 9035 Independence Avenue; 21019 - 21045 Osborne Street	Chatsworth	7	Warehouse / Distribution	1979 / 1980	153,236	1.0%	10	100.0%	1,207,325	1.0%	7.88

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Property Address	City	Number of Buildings	Asset Type	Year Built / Renovated[1]	Rentable Square Feet
700 Allen Ave., 1830 Flower	Glendale	3	Creative Office	1949, 1961 / 2011-2012	25,168
3550 Tyburn St., 3332, 3334, 3360, 3368, 3370, 3378, 3380, 3410, 3424 N. San Fernando Rd.	Los Angeles	8	Warehouse / Distribution	1966, 1992, 1993, 1994	474,954

AFC Results

(Dollars in millions except volumes and per loan amounts)		2011
AFC revenue		
Interest and fee income	$	
Other revenue		
Provision for credit losses		
Total AFC revenue		
Cost of services*		
Gross profit*		
Selling, general and administrative		
Depreciation and amortization		
Operating profit	$	
Loan transactions		1,06
Revenue per loan transaction	$	

* Exclusive of depreciation and amortization

Note: Prior to 2011, certain AFC fees collected from customers w services, as well as certain selling, general and administrative expense check fees, filing fees and postage fees, each of which are charged to a customers. At December 31, 2011, these fees were included in revenue costs reflected in their respective expense categories, resulting in an in as well as an increase to the related expenses for 2010. For the year en "Other revenue" has been increased by $7.6 million, "Cost of services" $5.6 million and "Selling, general and administrative" has been increas

Revenue

For the year ended December 31, 2011, AFC revenue increased $ $168.8 million, compared with $136.3 million for the year ended Dece increase in revenue was the result of a 9% increase in revenue per loan ended December 31, 2011, compared with the same period in 2010, an transactions to 1,064,891 for the year ended December 31, 2011. In ad receivables increased to $883.2 million at December 31, 2011 from $7 December 31, 2010.

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

Accounting Standards Update 2009-16 amended ASC 860, *Trans*
adopted the guidance on January 1, 2010. The guidance eliminated sec
accounting and resulted in the recording of interest and fee income, pr
and interest expense for the finance receivable transactions under the r
The impact of this guidance on revenue was a net $1.4 million reducti
quarter of 2010. The elimination of the gain on sale treatment resulted
of $2.8 million, while the reclassification of interest expense resulted i
increase in revenue.

Gross Profit

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses at AFC increased $1
year ended December 31, 2011, compared with the year ended Decem
was primarily the result of increases in compensation expense, travel c
promotion expenses, partially offset by decreases in professional fees a
compensation.

Holding Company Results

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

Selling, General and Administrative Expenses

For the year ended December 31, 2011, selling, general and admi
holding company increased $1.6 million, or 3%, to $65.4 million, com
for the year ended December 31, 2010, primarily as a result of increase
expense, professional fees and integration costs (primarily related to th
activity), partially offset by decreases in stock-based compensation ex
costs, incentive compensation and other miscellaneous expenses. Excl
professional fees and integration costs associated with acquisitions of
general and administrative costs would have declined $1.9 million in 2
2010.

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Overview of Results of KAR Auction Services for the Years Ended D
2009:

	Year Ended December 31,	
(Dollars in millions except per share amounts)	**2010**	**2**
Revenues		
ADESA	$ 1,075.9	$
IAA	610.4	
AFC	136.3	
Total revenues	1,822.6	
Cost of services*	1,007.3	
Gross profit*	815.3	
Selling, general and administrative	375.2	
Depreciation and amortization	171.3	
Operating profit	268.8	
Interest expense	141.4	
Other income, net	(2.1)	
Loss on extinguishment of debt	32.7	
Income before income taxes	96.8	
Income taxes	27.2	
Net income	$ 69.6	$
Net income per share		
Basic	$ 0.52	$
Diluted	$ 0.51	$

* Exclusive of depreciation and amortization

For the year ended December 31, 2010, we had revenue of $1,82
revenue of $1,735.5 million for the year ended December 31, 2009, an
further discussion of revenues, gross profit and selling, general and ad
the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization decreased $1.1 million, or 1%, to $
ended December 31, 2010, compared with $172.4 million for the year
The decrease is representative of certain assets becoming fully depreci
increase in 2010 capital spending compared to 2009, as well as an incr
to acquired sites.

Interest Expense

Interest expense decreased $31.2 million, or 18%, to $141.4 milli
December 31, 2010, compared with $172.6 million for the year ended
decrease in interest expense was primarily the result of a $250.0 millio

Loan B in the fourth quarter of 2009, a $225.6 million prepayment on
senior subordinated notes in January 2010, a $28.3 million prepaymen
February 2010, a $75.0 million prepayment on Old Term Loan B in N
$68.3 million prepayment on the principal amount of the senior subor
2010. Partially offsetting the decrease was an increase in interest expe
adoption of Accounting Standards Update 2009-16 in 2010. Included i
is $7.2 million in AFC interest related to

the securitized finance receivables. Prior to 2010, AFC interest expens
reduction of AFC net revenue.

Other Income

Other income was $2.1 million for the year ended December 31,
income of $11.6 million for the year ended December 31, 2009. The c
primarily representative of smaller foreign currency transaction gains
December 31, 2010, compared to the year ended December 31, 2009.

Loss on Extinguishment of Debt

In connection with our initial public offering, we conducted a cas
our notes. The tender offer was oversubscribed and as such, in accorda
priority levels, only a portion of the senior subordinated notes tendere
prepayment. In January 2010, we prepaid $225.6 million principal am
subordinated notes with proceeds received from the initial public offer
option to purchase additional shares. In the first quarter of 2010, we re
pretax charge representative of the net premiums payable related to th
subordinated notes, the write-off of certain unamortized debt issuance
senior subordinated notes and certain expenses related to the tender of

In addition, in the fourth quarter of 2010, we conducted a cash te
notes. The tender offer was oversubscribed and as such, in accordance
levels, only a portion of the senior subordinated notes tendered were a
December 2010, we prepaid $68.3 million principal amount of the sen
available cash and recorded a $7.4 million pretax charge representativ
payable related to the repurchase of the senior subordinated notes, the
unamortized debt issuance costs associated with our senior subordinat
expenses related to the tender offer.

Income Taxes

Our effective tax rate was 28.1% for the year ended December 31
32.4% for the year ended December 31, 2009. Excluding the effect of
effective tax rates for the years ended December 31, 2010 and Decemb
been 38.3% and 51.8%, respectively. The change in the tax rate, exclu
items, was primarily attributable to the reduction of expenses permane
purposes, the increase in consolidated pre-tax profits and lower tax rat
jurisdictions.

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ADESA Results

(Dollars in millions)	Year Ended December 31, 2010	2009
ADESA revenue	$ 1,075.9	$ 1,088.5
Cost of services*	611.2	615.4
Gross profit*	464.7	473.1
Selling, general and administrative	211.9	207.1
Depreciation and amortization	86.9	88.4
Operating profit	$ 165.9	$ 177.6

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $12.6 million, or 1%, to $1,075
ended December 31, 2010, compared with $1,088.5 million for the yea
2009. The decrease in revenue was primarily a result of a 7% decrease
sold, partially offset by a 6% increase in revenue per vehicle sold to ov
December 31, 2010, compared to approximately $540 for the year end

The 6% increase in revenue per vehicle sold was attributable to in
related to higher used vehicle values and selective fee increases which
ADESA revenue of approximately $27.4 million. In addition, fluctuati
exchange rate resulted in increased ADESA revenue of approximately
increases in ancillary services, such as transportation and other service
ADESA revenue of approximately $8.3 million.

The total number of used vehicles sold at ADESA decreased 7%
December 31, 2010, compared with the year ended December 31, 200
in ADESA revenue of approximately $71.2 million. The decrease in v
to a decline in supplier inventory levels in 2010 compared to 2009. Fo
December 31, 2010, as compared with the year ended December 31, 2
decline in industry volumes was consistent with the decline experience
volumes for ADESA in 2010 represented over 20% of the total vehicle

The used vehicle conversion percentage, calculated as the numbe
percentage of the number of vehicles entered for sale at our used vehic
65.0% for the year ended December 31, 2010, compared with 66.9% f
December 31, 2009. The decrease in conversion rates is representative
vehicles sold toward more dealer consignment vehicles, which convert
year ended December 31, 2010, dealer consignment vehicles represent
used vehicles sold at ADESA, an increase from 29% for the year ende

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Gross Profit

For the year ended December 31, 2010, gross profit for ADESA d
2%, to $464.7 million, compared with $473.1 million for the year ende
Gross profit for ADESA was 43.2% of revenue for the year ended Dec
with 43.5% of revenue for the year ended December 31, 2009. The dec
percentage of revenue for the year ended December 31, 2010, compare
December 31, 2009 was the result of an increase in ancillary services r
gross profit than auction services revenue.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segm
$4.8 million, or 2%, to $211.9 million for the year ended December 31
$207.1 million for the year ended December 31, 2009, primarily due to
compensation, fluctuations in the Canadian exchange rate, an increase
increase for costs at acquired sites and a net increase in other miscellan
increases were partially offset by a decrease in incentive compensation
professional fees.

IAA Results

	Year Ended December 31,	
(Dollars in millions)	**2010**	**2009**
IAA revenue	$ 610.4	$ 553.1
Cost of services*	362.0	352.1
Gross profit*	248.4	201.0
Selling, general and administrative	78.9	65.5
Depreciation and amortization	58.9	58.3
Operating profit	$ 110.6	$ 77.2

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $57.3 million, or 10%, to $610.4 m
December 31, 2010, compared with $553.1 million for the year ended
increase in revenue was primarily a result of an increase in fee revenue
average selling price for vehicles sold at auction, and to a lesser extent
acquired sites. For the year ended December 31, 2010, total salvage ve
approximately 2%. Online sales volumes for IAA in 2010 represented
total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2010, gross profit at IAA increa
40.7% of revenue, compared with $201.0 million, or 36.3% of revenue
December 31, 2009. The gross profit increase was primarily the result
revenue due to an increase in average selling price for vehicles sold at
increased primarily as a result of increases in incentive compensation l

of IAA, expenses associated with costs at acquired sites and increases
expenses. These increases were partially offset by a reduction in tow c

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Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $1
$78.9 million for the year ended December 31, 2010, compared with $
ended December 31, 2009. The increase in selling, general and admini
attributable to increases in stock-based compensation and incentive co
increased spending on professional fees and severance, both related to
initiatives which were launched in the first quarter of 2010.

AFC Results

(Dollars in millions except volumes and per loan amounts)		Y De 2010
AFC revenue		
Securitization income	$	
Interest and fee income		13
Other revenue		
Provision for credit losses		(1
Total AFC revenue		13
Cost of services*		3
Gross profit*		10
Selling, general and administrative		2
Depreciation and amortization		2
Operating profit	$	5
Loan transactions		935,5
Revenue per loan transaction	$	1

* Exclusive of depreciation and amortization

Note: Prior to 2011, certain AFC fees collected from customers w
services, as well as certain selling, general and administrative expense
check fees, filing fees and postage fees, each of which are charged to a
customers. At December 31, 2011, these fees were included in revenue
costs reflected in their respective expense categories, resulting in an in
as well as an increase to the related expenses for 2010 and 2009. For th
December 31, 2010, "Other revenue" has been increased by $7.6 millio
been increased by $5.6 million and "Selling, general and administrativ
$2.0 million. For the year ended December 31, 2009, "Other revenue"
$5.9 million, "Cost of services" has been increased by $4.2 million and
administrative" has been increased by $1.7 million.

Revenue

For the year ended December 31, 2010, AFC revenue increased $
$136.3 million, compared with $93.9 million for the year ended Decem
in revenue was the result of a 25% increase in revenue per loan transac
December 31, 2010, compared with the same period in 2009 and a 17%
transactions to 935,578 for the year ended December 31, 2010. In addi
increased to $771.6 million at December 31, 2010 from $613.0 million

Revenue per loan transaction, which includes both loans paid off
increased $29, or 25%, primarily as a result of a decrease in credit loss
sold, an

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increase in the average loan value, an increase in floorplan fee income
income and an increase in other income.

Accounting Standards Update 2009-16 amended ASC 860, *Trans*
adopted the new guidance on January 1, 2010. The new guidance elim
income accounting and resulted in the recording of interest and fee inc
for the finance receivable transactions under the revolving sale agreem
guidance on revenue was a net $1.4 million reduction of revenue for th
elimination of the gain on sale treatment resulted in a reduction of reve
the reclassification of interest expense resulted in an offsetting $1.4 m
Interest expense related to the securitized finance receivables for the y
2010 was $7.2 million and is included as "Interest expense" on the con
income. Interest expense related to the securitized finance receivables
December 31, 2009 totaled $4.7 million and was included in securitiza

Gross Profit

For the year ended December 31, 2010, gross profit for the AFC s
$42.3 million, or 71%, to $102.2 million, compared with $59.9 million
December 31, 2009, primarily as a result of a 45% increase in revenue

Selling, General and Administrative Expenses

Selling, general and administrative expenses at AFC increased $7
year ended December 31, 2010, compared with the year ended Decem
was primarily the result of increases in incentive compensation expens
employee benefit costs, professional fees and stock-based compensatio

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	**2010**	**2009**
Selling, general and administrative	$ 63.8	$ 80.4
Depreciation and amortization	0.5	1.0
Operating loss	$ (64.3)	$ (81.4)

Selling, General and Administrative Expenses

For the year ended December 31, 2010, selling, general and admi
holding company decreased $16.6 million, or 21%, to $63.8 million, c
for the year ended December 31, 2009, primarily as a result of the term
advisory fees paid to the Equity Sponsors. We paid the Equity Sponso
2009, including $10.5 million of termination fees in connection with th
ongoing financial advisory fees with each of them. Selling, general and
also decreased as a result of a decrease in stock-based compensation ex
KAR LLC and Axle LLC operating units which are remeasured each r
value. These decreases were partially offset by an increase in professio
expenses.

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LIQUIDITY AND CAPITAL RESOURCES

We believe that the significant indicators of liquidity for our busi
flow from operations, working capital and amounts available under ou
principal sources of liquidity consist of cash generated by operations a
revolving credit facility.

	December 31,	
(Dollars in millions)	**2011**	**2010**
Cash and cash equivalents	**$ 97.4**	$ 119
Restricted cash	**8.2**	8
Working capital	**177.0**	287
Amounts available under credit facility*	**181.1**	250
Cash flow from operations	**305.8**	467

* There were related outstanding letters of credit totaling appr
and $29.4 million at December 31, 2011 and 2010, respectiv
amount available for borrowings under the respective credit

Working Capital

A substantial amount of our working capital is generated from the
services provided. The majority of our working capital needs are short
than a week in duration. Due to the decentralized nature of the busines
vehicles purchased are received at each auction and branch. Most of th
place a temporary hold on the availability of the funds deposited that g
two business days, resulting in cash in our accounts and on our balanc
for use until it is made available by the various financial institutions. T
checks (book overdrafts) to sellers and vendors included in current lia
of these outstanding checks for operations in the U.S. are drawn upon
institutions other than the financial institutions that hold the cash, we c
and the outstanding checks on our balance sheet.

Our available cash, which excludes cash in transit, was $52.7 mil
Of this amount, approximately $26.8 million was held by foreign subs
be permanently reinvested in our non-U.S. businesses. If the funds hel
subsidiaries were to be repatriated, tax expense would need to be accru
rate, net of any applicable foreign tax credits. Such foreign tax credits
any U.S. taxes that would be due in the event cash held by our foreign
repatriated.

AFC offers short-term inventory-secured financing, also known a
used vehicle dealers. Financing is primarily provided for terms of 30 t
generates its funding through the sale of its receivables. The receivabl
securitization agreements are accounted for as secured borrowings. Fo
AFC's securitization arrangements, see "Securitization Facilities."

Credit Facilities

On May 19, 2011, we established a new $1.7 billion, six-year sen
facility ("New Term Loan B") and a new $250 million, five-year senio
facility, the terms of which are set forth in the Credit Agreement, date
"Credit Agreement"). Concurrently with our entry into the Credit Agre
previous credit facility, dated as of April 20, 2007 (as amended, the "2
On May 19, 2011, we paid all principal outstanding and interest due u

Agreement. No early termination penalties were incurred by the Comp
termination of the 2007

Credit Agreement; however, we incurred a non-cash loss on the exting
Loan B of $24.5 million representative of the write-off of certain unan
costs. In addition, we recognized $14.5 million of additional interest e
terminate our $650 million notional swap agreement, which was used
on Old Term Loan B.

The new credit facility is available for letters of credit, working c
purposes (including refinancing certain Existing Indebtedness (as defi
Agreement)). The Credit Agreement provides that with respect to the r
facility, up to $75 million is available for letters of credit and up to $7
swing line loans. The Credit Agreement also permits up to $300 millio
or term loan commitments from one or more of the existing lenders or
consent of the administrative agent).

New Term Loan B was issued at a discount of $8.5 million. The d
to interest expense over the six-year term of the loan. New Term Loan
installments equal to 0.25% of the original aggregate principal amount
September 30, 2011, and the balance is payable at maturity. The new c
mandatory prepayments and reduction in an amount equal to (i) the ne
offerings, asset sales and certain insurance recovery events; and (ii) fo
or after December 31, 2011, any Excess Cash Flow, as defined in the C

New Term Loan B will bear interest at an adjusted LIBOR rate pl
LIBOR rate floor of 1.25% per annum) and revolving loan borrowings
plus 3.50%; however, for specified types of borrowings, the Company
loan borrowings at a Base Rate (as defined in the Credit Agreement) p
loan borrowings at a Base Rate plus 2.50%. The rate on New Term Lo
December 31, 2011. In addition, if the Company reduces its Consolida
Leverage Ratio (as defined in the Credit Agreement), which is based o
levels specified in the Credit Agreement, the applicable interest rate w
points. The Company will also pay a commitment fee of 50 basis poin
average daily unused amount of the Credit Facility. The fee may step d
based on the Company's Consolidated Senior Secured Leverage Ratio

On December 31, 2011, $1,691.5 million was outstanding on Nev
$68.9 million was drawn on the new revolving credit facility. There w
the old revolving credit facility at December 31, 2010. However, there
letters of credit in the aggregate amount of $28.5 million and $29.4 mi
and December 31, 2010, respectively, which reduce the amount availa
the respective credit facilities. The Company intends to repay the $68.
borrowings under the revolving credit facility within the next twelve n
Canadian operations have a C$8 million line of credit which was undra
2011. However, there were related letters of credit outstanding totaling
C$2.2 million at December 31, 2011, which reduce credit available un
credit, but do not affect amounts available for borrowings under our ne

The obligations of the Company under the Credit Facility are gua
domestic subsidiaries (the "Subsidiary Guarantors") and are secured by
assets of the Company and the Subsidiary Guarantors, including but no
and perfected first-priority security interests in 100% of the equity inte
Company's and the Subsidiary Guarantors' domestic subsidiaries and 6
of certain of the Company's and the Subsidiary Guarantors' first-tier fo
(b) perfected first-priority security interests in substantially all other ta
of the Company and each Subsidiary Guarantor, subject to certain exc

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The Credit Agreement contains certain restrictive loan covenants
financial covenant requiring that a maximum consolidated senior secu
satisfied as of the last day of each fiscal quarter if revolving loans are
limiting our ability to incur indebtedness, grant liens, make acquisitio
control transactions, dispose of assets, pay dividends, make capital ex
investments and engage in certain transactions with affiliates. The lev
based on consolidated Adjusted EBITDA which is EBITDA (earnings
income taxes, depreciation and amortization) adjusted to exclude amo
and losses from asset sales; (b) unrealized foreign currency translation
of indebtedness; (c) certain non-recurring gains and losses; (d) stock o
other noncash amounts included in the determination of net income; (f
consulting and advisory fees paid to the equity sponsors; (g) charges a
resulting from purchase accounting; (h) unrealized gains and losses on
(i) minority interest; (j) expenses associated with the consolidation of
(k) consulting expenses incurred for cost reduction, operating restruct
improvement efforts; (l) expenses realized upon the termination of em
or cancellation of leases, software licenses or other contracts in conne
restructuring and business improvement efforts; (m) expenses incurre
permitted acquisitions; and (n) any impairment charges or write-offs o

Certain covenants contained within the Credit Agreement are crit
understanding of our financial liquidity, as the failure to maintain com
covenants could result in a default and allow our lenders to declare all
immediately due and payable. The maximum consolidated senior secu
required to be met when there are revolving loans outstanding under o
maximum consolidated senior secured leverage ratio cannot exceed 4.
of any fiscal quarter through September 30, 2012. Beginning with the
December 31, 2012, the ratio cannot exceed 4.0 to 1.0 and continues t
remaining life of the credit facility until it reaches 2.5 to 1.0 at Decem
maximum consolidated senior secured leverage ratio was 3.6 to 1.0 at

In addition, the indenture governing our floating rate senior notes
and operational restrictions that, similar to the Credit Agreement, limi
dividends and other distributions, make certain acquisitions or investm
grant liens and sell assets. The covenants in the Credit Agreement and
our floating rate senior notes affect our operating flexibility by, among
our ability to incur expenses and indebtedness that could be used to gr
to fund general corporate purposes. We were in compliance with the c
Agreement and the indenture governing our floating rate senior notes

We believe our sources of liquidity from our cash and cash equiv
capital, cash provided by operating activities, and availability under ou
sufficient to meet our short and long-term operating needs for the fore
we believe the previously mentioned sources of liquidity will be suffic
requirements and debt service payments for the next twelve months.

Securitization Facilities

AFC sells the majority of its U.S. dollar denominated finance rec
basis and without recourse to a wholly owned, bankruptcy remote, co
subsidiary ("AFC Funding Corporation"), established for the purpose
finance receivables. A securitization agreement allows for the revolvi
Corporation to a bank conduit facility of undivided interests in certain
subject to committed liquidity.

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On April 26, 2011, AFC and AFC Funding Corporation entered i
and Restated Receivables Purchase Agreement (the "Receivables Purc
Receivables Purchase Agreement increased AFC Funding's U.S. comm
$450 million to $650 million and extended the facility's maturity date
June 30, 2014. In addition, the interest costs for amounts borrowed inc
and certain of the covenants and termination events in the Receivables
are tied to the performance of the finance receivables portfolio were m

On May 24, 2011, Automotive Finance Canada, Inc. ("AFCI") en
Restated Receivables Purchase Agreement (the "Canadian Receivables
The Canadian Receivables Purchase Agreement increased AFCI's Can
from C$75 million to C$100 million and extended the facility's maturi
to June 30, 2014. AFCI's committed liquidity is provided through a thi
from the U.S. conduit).

ASU 2009-16 amended ASC 860, *Transfers and Servicing*, and v
January 1, 2010. The guidance specifies that the finance receivable tra
to January 1, 2010 under our revolving sale agreement be included in
resulted in an increase in assets and related obligations in 2010. In add
eliminated securitization income accounting and resulted in the record
income and interest expense for the finance receivable transactions un
agreement.

AFC managed total finance receivables of $883.2 million and $7
December 31, 2011 and December 31, 2010, respectively.

AFC's allowance for losses was $9.0 million and $9.7 million at I
December 31, 2010, respectively.

As of December 31, 2011 and December 31, 2010, $877.6 millio
respectively, of finance receivables and a cash reserve of 1 percent of
securitized serve as security for the $610.3 million and $520.1 million
collateralized by finance receivables at December 31, 2011 and Decen
The amount of the cash reserve depends on circumstances which are s
agreements. After the occurrence of a termination event, as defined in
agreement, the bank conduit facility may, and could, cause the stock o
Corporation to be transferred to the bank conduit facility, though as a
conduit facility would look to the liquidation of the receivables under
as their primary remedy.

Proceeds from the revolving sale of receivables to the bank condu
new loans to customers. AFC, AFC Funding Corporation and AFCI m
financial covenants including, among others, limits on the amount of d
incur, minimum levels of tangible net worth, and other covenants tied
finance receivables portfolio. The securitization agreements also incor
covenants of our credit facility. At December 31, 2011, we were in co
covenants in the securitization agreements.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA, as presented herein, are supple
performance that are not required by, or presented in accordance with,
accounting principles in the United States, or GAAP. They are not mea
performance under GAAP and should not be considered substitutes fo
other performance measures derived in accordance with GAAP.

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EBITDA is defined as net income (loss), plus interest expense ne
income tax provision (benefit), depreciation and amortization. Adjuste
adjusted for the items of income and expense and expected incrementa
as described above in the discussion of certain restrictive loan covenar

Management believes that the inclusion of supplementary adjustm
in presenting Adjusted EBITDA is appropriate to provide additional in
about one of the principal measures of performance used by our credit
management uses Adjusted EBITDA to evaluate our performance and
to incentive compensation targets. EBITDA and Adjusted EBITDA ha
tools, and should not be considered in isolation or as a substitute for an
reported under GAAP. These measures may not be comparable to simi
reported by other companies.

The following tables reconcile EBITDA and Adjusted EBITDA t
periods presented:

	Year Ended December 3			
(Dollars in millions)	ADESA	IAA	AFC	Co
Net income (loss)	$ 55.8	$ 65.5	$ 57.2	$
Add back:				
Income taxes	17.9	36.1	29.6	
Interest expense, net of interest income	0.7	2.1	12.0	
Depreciation and amortization	88.1	65.8	24.7	
Intercompany	52.4	38.3	(14.4)	
EBITDA	214.9	207.8	109.1	
Adjustments	17.3	3.9	(7.2)	
Adjusted EBITDA	$ 232.2	$ 211.7	$ 101.9	$

	Year Ended December 3			
(Dollars in millions)	ADESA	IAA	AFC	Co
Net income (loss)	$ 80.1	$ 44.7	$ 38.4	$
Add back:				
Income taxes	43.6	26.7	21.1	
Interest expense, net of interest income	0.9	2.3	7.2	
Depreciation and amortization	86.9	58.9	25.0	
Intercompany	42.3	38.2	(11.7)	
EBITDA	253.8	170.8	80.0	
Adjustments	16.0	15.2	(0.4)	
Adjusted EBITDA	$ 269.8	$ 186.0	$ 79.6	$

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Certain of our loan covenant calculations utilize financial results
consecutive fiscal quarters. The following table reconciles EBITDA a
income (loss) for the periods presented:

	Three Months Ended		
(Dollars in millions)	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**
Net income (loss)	$ 39.8	$ (14.3)	$ 32.2
Add back:			
Income taxes	1.0	(6.9)	14.7
Interest expense, net of interest income	33.2	49.6	29.3
Depreciation and amortization	44.1	43.6	43.8
EBITDA	118.1	72.0	120.0
Nonrecurring charges	2.8	16.2	5.8
Noncash charges	8.5	46.2	(7.5)
AFC interest expense	(2.1)	(2.3)	(2.6)
Adjusted EBITDA	$ 127.3	$ 132.1	$ 115.7

Summary of Cash Flows

	Yea Dece
(Dollars in millions)	**2011**
Net cash provided by (used by):	
Operating activities	**$ 305.**
Investing activities	**(419.**
Financing activities	**93.**
Effect of exchange rate on cash	**(0.**
Net increase (decrease) in cash and cash equivalents	**$ (21.**

Cash flow from operating activities was $305.8 million for the ye
2011, compared with $467.6 million for the year ended December 31,
operating cash flow was primarily impacted by changes in operating a
change in operating assets was driven by the reduction in retained inte
sold and a reduction in finance receivables held for sale in 2010, whic
adoption of ASU 2009-16.

Net cash used by investing activities was $419.8 million for the y
2011, compared with $793.9 million for the year ended December 31,
cash used by investing activities was primarily the result of the 2010 n
receivables held for investment, which resulted from the adoption of A
specifies that the finance receivable transactions on or subsequent to J
revolving sale agreement be included in our balance sheet. In addition
more on acquisitions and $6.9 million more on capital items in 2011 c
discussion of the Company's capital expenditures, see "Capital Expen

Net cash provided by financing activities was $93.0 million for t
2011, compared with $81.0 million for the year ended December 31, 2
cash provided by financing activities was attributable to the $520.1 mi
collateralized by finance receivables in 2010, which resulted from the
as discussed above, partially offset by payments on debt in 2010, prim
our initial public offering. In

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addition, the change in net cash provided by financing activities was in
extinguishment of the Old Term Loan B credit facility, as the proceeds
as well as cash on hand, were used to pay all principal outstanding and
2007 Credit Agreement and to pay the principal and net premiums rela
our fixed senior notes and our senior subordinated notes.

Capital Expenditures

Capital expenditures for the years ended December 31, 2011 and
million and $78.9 million, respectively. Capital expenditures were fun
internally generated funds. We continue to invest in our core informati
and capacity expansion. Capital expenditures are expected to be appro
fiscal year 2012. Anticipated expenditures are primarily attributable to
system projects, integration of OPENLANE and ADESA information
improvements at existing vehicle auction facilities, improvements in in
systems and infrastructure and expansion and relocation of existing au
capacity. Future capital expenditures could vary substantially based on
the initiation of new information systems projects to support our busin

Acquisitions

In August 2011, ADESA entered into an Agreement and Plan of I
Agreement") with OPENLANE, Inc. ("OPENLANE"). In October 201
acquisition of OPENLANE, which became a wholly owned subsidiary
is a North American online automotive auction company that provides
and sellers of wholesale vehicles. OPENLANE offers its comprehensiv
auto manufacturers, captive finance companies, lease and daily rental c
dealers, financial institutions and wholesale auto auctions throughout t
Canada.

As a result of the merger and pursuant to the terms of the Merger
outstanding share of OPENLANE common stock and preferred stock (
common stock or preferred stock held by OPENLANE) was converted
amount in cash as set forth in the Merger Agreement. The value of the
in the merger was $208.4 million plus approximately $35 million for e
OPENLANE's balance sheet at the closing of the merger. We funded t
at closing with a combination of approximately $98.4 million of existi
borrowings of approximately $145 million from our revolving credit fa
approximately $35 million of acquired cash to immediately repay a po
the revolving credit facility. In addition, we entered into operating leas
various facilities through 2017. Initial annual lease payments for the va
approximately $1.6 million per year. Financial results for the acquisiti
our consolidated financial statements from the date of acquisition. In th
OPENLANE contributed revenue of $16.4 million and had a net loss o
diluted share.

During 2011, we completed the acquisitions of a company that au
company that develops satellite-based, GPS technology for advanced v
salvage facility. The purchase agreements included contingent paymen
results and business deployments subsequent to the purchase date. The
fixed assets, software, inventory, accounts receivable and other intang
for each acquisition have been included in our consolidated financial s
acquisition.

The aggregate purchase price for the businesses acquired in 2011
approximately $214.0 million, which includes estimated contingent pa
value of $0.4 million. The

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maximum amount of undiscounted contingent payments related to thes
approximate $0.4 million. The purchase price for the acquired busines
acquired assets and liabilities based upon fair values, including $94.7 r
representing the fair value of acquired customer relationships, tradenar
noncompete agreements, which are being amortized over their expecte
acquisitions resulted in aggregate goodwill of $123.6 million. The fina
acquisitions, including pro forma financial results, was immaterial to t
operations.

Some of our acquisitions from prior years include contingent pay
or unit volumes of certain vehicles sold subsequent to the purchase dat
payments in 2011, 2010 and 2009 totaling approximately $1.8 million
million, respectively, pursuant to these agreements, which resulted in a
addition, in 2011, we reversed contingent consideration of approximat
certain prior year acquisitions based on revised forecasts which indicat
required during the measurement period in order for the contingent cor
payable would not be met. The net $4.6 million of contingent consider
recorded to "Other (income) expense, net" in the consolidated statemer

Contractual Obligations

The table below sets forth a summary of our contractual debt and
as of December 31, 2011. Some of the figures included in this table are
estimates and assumptions about these obligations, including their dura
renewal and other factors. Because these estimates and assumptions ar
the obligations we may actually pay in future periods could vary from
The following summarizes our contractual cash obligations as of Dece
:

		Payments Due by Peri		
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 Years**	**4**
Long-term debt				
New $250 million revolving credit facility(a)	$ 68.9	$ 68.9	$	$
New term loan B(a)	1,691.5	17.0	34.0	
Floating rate senior notes due 2014(a)	150.0		150.0	
Capital lease obligations(b)	30.2	12.1	16.7	
Interest payments relating to long-term debt(c)	465.3	93.3	177.3	
Postretirement benefit payments(d)	0.4	0.1	0.1	
Operating leases(e)	882.8	82.1	149.6	
Total contractual cash obligations	$ 3,289.1	$ 273.5	$ 527.7	$

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

(b)

We have entered into capital leases for furniture, fixtures, eq
Future capital lease obligations would change if we entered
agreements.

(c)

Interest payments on long-term debt are projected based on t
debt securities. Interest rates for the variable rate debt instru
current rates due to their unpredictable nature.

(d)

Estimated future benefit payments for certain health care and
retired employees of Underwriters Salvage Company, or US
obligation in connection with the acquisition of the capital st

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(e)

Operating leases are entered into in the normal course of bus
our auction facilities, as well as other property and equipmen
Some lease agreements contain options to renew the lease or
property. Future operating lease obligations would change if
exercised and/or if we entered into additional operating lease

Critical Accounting Estimates

In preparing the financial statements in accordance with U.S. gen
principles, management must often make estimates and assumptions th
amounts of assets, liabilities, revenues, expenses and related disclosure
financial statements and during the reporting period. Some of those jud
and complex. Consequently, actual results could differ from those esti
measurements that management believes are most critical to the report
and financial condition include: uncollectible receivables and allowanc
doubtful accounts, goodwill and long-lived assets, self-insurance progr
other loss contingencies and income taxes.

In addition to the critical accounting estimates, there are other ite
of the consolidated financial statements that require estimation, but are
Changes in estimates used in these and other items could have a mater
statements.

We continually evaluate the accounting policies and estimates use
consolidated financial statements. In cases where management estimat
on historical experience, information from third-party professionals, an
assumptions believed to be reasonable. In addition, our most significan
discussed in Note 2 and elsewhere in the Notes to the Consolidated Fin
year ended December 31, 2011, which are included in this Annual Rep

Uncollectible Receivables and Allowance for Credit Losses and Doub

We maintain an allowance for credit losses and doubtful accounts
resulting from the inability of customers to make required payments. T
losses and doubtful accounts are based on management's evaluation of
under current economic conditions, the volume of the portfolio, overal
review of specific collection matters and such other factors which, in m
deserve recognition in estimating losses. Specific collection matters ca
outcome of negotiations, litigation and bankruptcy proceedings.

Due to the nature of our business, substantially all trade receivabl
dealers, salvage buyers, institutional customers and insurance compani
possession of vehicles or vehicle titles collateralizing a significant port
the auction sites, risk is mitigated through a pre-auction registration pr
verification of identification, bank accounts, dealer license status, acce
buying history at other auctions and the written acceptance of all of th
procedures.

AFC's allowance for credit losses includes an estimate of losses f
AFC controls credit risk through credit approvals, credit limits, underw
management monitoring procedures, which includes holding vehicle ti

Goodwill and Long-Lived Assets

When we acquire businesses, the purchase price is allocated to ta
and identifiable intangible assets acquired. Any residual purchase pric
The

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allocation of the purchase price requires management to make signific
determining the fair values of assets acquired and liabilities assumed, e
intangible assets. These estimates are based on historical experience an
from the management of the acquired companies. These estimates can
to, the cash flows that an asset is expected to generate in the future, the
weighted-average cost of capital, and the cost savings expected to be d
asset. These estimates are inherently uncertain and unpredictable. In ad
events and circumstances may occur which may affect the accuracy or

In accordance with ASC 350, *Intangibles-Goodwill and Other*, w
impairment at least annually and whenever events or circumstances in
amount of the goodwill may be impaired. Important factors that could
review include significant under-performance relative to historical or p
results; significant negative industry or economic trends; and our mark
book value. In assessing goodwill, we must make assumptions regardi
flows and earnings, changes in our business strategy and economic con
valuations related to the fair values of our three reporting units (which
operating and reportable business segments: ADESA Auctions, IAA a
changes in industry and market conditions, we may be required to stra
resources and consider restructuring, disposing of or otherwise exiting
result in an impairment of goodwill.

The goodwill impairment test is a two-step test. Under the first st
reporting unit is compared with its carrying value (including goodwill)
reporting unit is less than its carrying value, an indication of goodwill
reporting unit and we must perform step two of the impairment test (m
two, an impairment loss is recognized for any excess of the carrying am
unit's goodwill over the implied fair value of that goodwill. The implie
determined by allocating the fair value of the reporting unit in a manne
price allocation, in accordance with ASC 805, *Business Combinations*
after this allocation is the implied fair value of the reporting unit good
reporting unit is determined using a discounted cash flow analysis. If t
reporting unit exceeds its carrying value, step two does not need to be

We review long-lived assets for possible impairment whenever ci
their carrying amount may not be recoverable. If it is determined that t
long-lived asset exceeds the total amount of the estimated undiscounte
that asset, we would recognize a loss to the extent that the carrying am
of the asset. Management judgment is involved in both deciding if test
necessary and in estimating undiscounted cash flows. Our impairment
current business strategy, expected growth rates and estimated future e

Self-Insurance Programs

We self-insure a portion of employee medical benefits under the t
health insurance program, as well as a portion of our automobile, gene
compensation claims. We have insurance coverage that limits the expo
We also have insurance coverage that limits the total exposure to overa
liability and workers' compensation claims. The cost of the insurance i
contract periods.

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We record an accrual for the claims expense related to our emplo
automobile, general liability and workers' compensation claims based
of all such claims. Trends in healthcare costs could have a significant i
claims. If actual claims are higher than anticipated, our accrual might b
claims costs, which would have an adverse impact on the operating res

Legal Proceedings and Other Loss Contingencies

We are subject to the possibility of various legal proceedings and
many involving litigation incidental to the business and a variety of en
regulations. Litigation and other loss contingencies are subject to inher
outcomes of such matters are often very difficult to predict and genera
periods of time. We consider the likelihood of loss or the incurrence o
ability to reasonably estimate the amount of loss, in determining loss c
probable losses requires the analysis of multiple possible outcomes tha
the judgment about potential actions by third parties. Contingencies ar
consolidated financial statements, or otherwise disclosed, in accordanc
Contingencies. We accrue for an estimated loss contingency when it is
has been incurred and the amount of loss can be reasonably estimated.
evaluates current information available to determine whether accrual a
If the amount of an actual loss is greater than the amount accrued, this
impact on our operating results in that period. Legal fees are expensed

Income Taxes

All income tax amounts reflect the use of the asset and liability m
deferred tax assets and liabilities are determined based on the expected
of temporary differences between the carrying amounts of assets and l
income tax reporting purposes.

We operate in multiple tax jurisdictions with different tax rates ar
appropriate allocation of income to each of these jurisdictions. In the n
we will undergo scheduled reviews by taxing authorities regarding the
These reviews include questions regarding the timing and amount of d
allocation of income among various tax jurisdictions. Tax reviews ofte
period of time to resolve and may result in income tax adjustments if c
required between jurisdictions with different tax rates.

We record our tax provision based on existing laws, experience w
agreements, the status of current IRS (or other taxing authority) exami
understanding of how the tax authorities view certain relevant industry
In accordance with ASC 740, *Income Taxes*, we recognize the effect o
if those positions are more likely than not of being sustained. Recogni
are measured at the largest amount that is greater than 50% likely of b
recognition or measurement are reflected in the period in which the ch
We establish reserves when we believe that certain positions may not p
taxing authority. We adjust these reserves in light of changing facts an

New Accounting Standards

In September 2011, the Financial Accounting Standards Board ("
2011-08, *Goodwill and Other (Topic 350) Testing Goodwill for Impa*
permits an entity to first assess qualitative factors to determine whethe
that the fair value of a

reporting unit is less than its carrying amount before applying the two-
model that is currently in place. If it is determined through the qualitat
reporting unit's fair value is more likely than not greater than its carryi
impairment steps would be unnecessary. The qualitative assessment is
companies to go directly to the quantitative assessment. The new guid
and interim goodwill impairment tests performed for fiscal years begin
2011; however, early adoption is permitted. We do not expect the adop
have a material impact on the consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive In
220) Presentation of Comprehensive Income*. The new guidance requ
total of comprehensive income, the components of net income and the
comprehensive income, either in a single continuous statement of com
two separate but consecutive statements. ASU 2011-05 eliminates the
components of other comprehensive income as part of the statement o
2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date f
Presentation of Reclassifications of Items Out of Accumulated Other C
ASU 2011-05*, to defer the effective date of the specific requirement to
reclassified out of accumulated other comprehensive income to net inc
respective components of net income and other comprehensive income
ASU 2011-05 are effective for the first annual reporting period, and in
years, beginning after December 15, 2011, and should be applied retro
expect the adoption of ASU 2011-05 will have a material impact on th
statements.

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Item 7A. Quantitative and Qualitative Disclosures About Mark

Foreign Currency

Our foreign currency exposure is limited and arises from transact
foreign currencies, particularly intercompany loans, as well as from tra
operations from our Canadian and, to a much lesser extent, Mexican su
fluctuations between U.S. and non-U.S. currency values may adversel
operations and financial position. In addition, there may be tax ineffici
from non-U.S. subsidiaries. To the extent such repatriation is necessar
service or other obligations, these tax inefficiencies may adversely aff
into any foreign exchange contracts to hedge changes in the Canadian
Canadian currency translation positively affected net income by appro
$5.0 million for the years ended December 31, 2011 and 2010, respect
of our Mexican operations is not material to the results of operations.

Interest Rates

We are exposed to interest rate risk on borrowings. Accordingly,
affect the amount of interest expense we are obligated to pay. We use
agreements to manage the variability of cash flows to be paid due to in
our variable rate debt. We have designated our interest rate derivatives
earnings impact of the derivatives designated as cash flow hedges are
recognition of the interest related to the hedged debt. Any ineffectiven
relationships is recognized in current earnings. There was no significa
years ended December 31, 2011 or 2010.

In August 2011, we purchased three interest rate caps for an aggre
approximately $1.1 million with an aggregate notional amount of $92
exposure to interest rate movements on our variable rate New Term Lo
one-month LIBOR exceeds 1.25%. The interest rate cap agreements ea
August 16, 2011 and each mature on August 16, 2013.

In May 2009, we entered into an interest rate swap agreement wit
$650 million to manage our exposure to interest rate movements on ou
Loan B credit facility. The interest rate swap agreement had an effecti
was scheduled to mature on June 30, 2012 and effectively resulted in a
of 2.19% on $650 million of the Old Term Loan B credit facility. In co
extinguishment of Old Term Loan B in May 2011, we de-designated o
entered into a swap termination agreement. We paid $14.5 million to s
swap agreement.

The fair values of the interest rate derivatives are based on quoted
instruments from commercial banks. As noted above, our interest rate
terminated in May 2011, and our old interest rate cap agreement matur
December 31, 2011, the aggregate fair value of the three interest rate c
asset recorded in "Other assets" on the consolidated balance sheet. At
value of the interest rate swap was a $16.6 million unrealized loss reco
expenses" on the consolidated balance sheet, and the fair value of the
less than $0.1 million asset recorded in "Other current assets" on the co
Unrealized gains or losses on the interest rate derivatives are included
"Accumulated other comprehensive income." At December 31, 2011,
gain totaling $0.1 million, net of tax benefits of less than $0.1 million.
loss in the event of non-performance by the counterparties; however, n
anticipated. We only partially hedged our exposure to interest rate fluc
rate debt. A sensitivity analysis of the impact on our variable rate debt
hypothetical 100 basis point increase in short-term rates for the year en
would have resulted in an increase in interest expense of approximatel

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Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

KAR Auction Services, Inc.

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income for the Years Ended December 31
and 2009

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the Years Ended
2011, 2010 and 2009

Consolidated Statements of Cash Flows for the Years Ended Decembe
2010 and 2009

Notes to Consolidated Financial Statements

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Management's Report on Internal Control Over Finan

Our management is responsible for establishing and maintaining
over financial reporting as defined in Rule 13a-15(f) under the Exchan
control over financial reporting is designed under the supervision of ou
officer and principal financial and accounting officer, and effected by
management and other personnel, to provide reasonable assurance rega
financial reporting and the preparation of financial statements for exter
with U.S. GAAP and include those policies and procedures that:

Pertain to the maintenance of records that in reaso
fairly reflect our transactions and the dispositions

Provide reasonable assurance that our transactions
to permit preparation of financial statements in acc
and that our receipts and expenditures are being m
with authorizations of our management and Board

Provide reasonable assurance regarding prevention
unauthorized acquisition, use or disposition of our
material effect on our financial statements.

Because of its inherent limitations, internal control over financial
or detect misstatements. Therefore, even those systems determined to
only reasonable assurance with respect to financial statement preparati

Under the supervision and with the participation of our managem
executive officer and principal financial and accounting officer, we ass
our internal control over financial reporting as of December 31, 2011,
by the Committee of Sponsoring Organizations of the Treadway Comm
Control Integrated Framework. Based on our assessment, we have co
control over financial reporting was effective as of December 31, 2011
we did not identify any material weaknesses in our internal control ove

We have excluded OPENLANE, Inc. from our assessment of inte
reporting as of December 31, 2011 because it was acquired on Octobe
and total revenues of OPENLANE, Inc. represent 5.2% and 0.9%, resp
consolidated financial statement amounts as of and for the year ended
continue to integrate new acquisitions into corporate processes. No po
changes due to new acquisitions would be considered material to, or a
materially affect, our internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm th
financial statements for the year ended December 31, 2011, also audite
Company's internal control over financial reporting as of December 31
report included in Item 8, *Financial Statements and Supplementary Da*
on Form 10-K.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer
(Principal Executive Officer)

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Chief Financial Officer
(Principal Financial and Accounting Officer)

Report of Independent Registered Public Accoun

The Board of Directors and Stockholders
KAR Auction Services, Inc.:

We have audited the accompanying consolidated balance sheets o
Services, Inc. and subsidiaries as of December 31, 2011 and 2010, and
statements of income, stockholders' equity and cash flows for each of t
period ended December 31, 2011. We also have audited the Company'
financial reporting as of December 31, 2011, based on criteria establis
Control Integrated Framework issued by the Committee of Sponsorin
Treadway Commission (COSO). The Company's management is respo
consolidated financial statements, for maintaining effective internal co
reporting, and for its assessment of the effectiveness of internal contro
included in the accompanying management's report on internal control
Our responsibility is to express an opinion on these consolidated finan
opinion on the Company's internal control over financial reporting bas

We conducted our audits in accordance with the standards of the
Accounting Oversight Board (United States). Those standards require
the audits to obtain reasonable assurance about whether the financial s
material misstatement and whether effective internal control over finan
maintained in all material respects. Our audits of the consolidated fina
examining, on a test basis, evidence supporting the amounts and disclo
statements, assessing the accounting principles used and significant es
management, and evaluating the overall financial statement presentatio
control over financial reporting included obtaining an understanding o
financial reporting, assessing the risk that a material weakness exists, a
the design and operating effectiveness of internal control based on the
also included performing such other procedures as we considered nece
We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process
reasonable assurance regarding the reliability of financial reporting an
financial statements for external purposes in accordance with generally
principles. A company's internal control over financial reporting inclu
procedures that (1) pertain to the maintenance of records that, in reaso
fairly reflect the transactions and dispositions of the assets of the comp
reasonable assurance that transactions are recorded as necessary to per
statements in accordance with generally accepted accounting principle
expenditures of the company are being made only in accordance with a
management and directors of the company; and (3) provide reasonable
prevention or timely detection of unauthorized acquisition, use, or disp
assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial
or detect misstatements. Also, projections of any evaluation of effectiv
subject to the risk that controls may become inadequate because of cha
the degree of compliance with the policies or procedures may deteriora

In our opinion, the consolidated financial statements referred to a
material respects, the financial position of KAR Auction Services, Inc
December 31, 2011 and 2010, and the results of their operations and th
the years in the three year period ended December 31, 2011, in confor
accepted accounting principles. Also in our opinion, KAR Auction Ser
maintained, in all material respects, effective internal control over fina
December 31, 2011, based on criteria established in *Internal Control*

issued by COSO.

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As described in the accompanying management's report on intern
reporting, management has excluded OPENLANE, Inc. from its assess
over financial reporting as of December 31, 2011 because it was acqui
Services, Inc. on October 3, 2011. We have also excluded OPENLAN
internal control over financial reporting. Total assets and total revenue
represent 5.2% and 0.9%, respectively, of the related consolidated fina
of and for the year ended December 31, 2011.

/s/ KPMG LLP

Indianapolis, Indiana
February 28, 2012

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KAR Auction Services, Inc.

Consolidated Statements of Income

(In millions, except per share data)

	Year End	
	2011	
Operating revenues		
ADESA Auction Services	$ 1,017.4	$
IAA Salvage Services	700.1	
AFC	168.8	
Total operating revenues	1,886.3	
Operating expenses		
Cost of services (exclusive of depreciation and amortization)	1,035.2	
Selling, general and administrative	389.4	
Depreciation and amortization	179.8	
Total operating expenses	1,604.4	
Operating profit	281.9	
Interest expense	143.1	
Other (income) expense, net	(4.7)	
Loss on extinguishment of debt	53.5	
Income before income taxes	90.0	
Income taxes	17.8	
Net income	$ 72.2	$
Net income per share		
Basic	$ 0.53	$
Diluted	$ 0.52	$

See accompanying notes to consolidated financial st

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KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions)

Assets	
Current assets	
Cash and cash equivalents	$
Restricted cash	
Trade receivables, net of allowances of $6.4 and $6.3	
Finance receivables, net of allowances	
Finance receivables securitized, net of allowances	
Deferred income tax assets	
Other current assets	
Total current assets	
Other assets	
Goodwill	
Customer relationships, net of accumulated amortization of $325.8 and $254.3	
Other intangible assets, net of accumulated amortization of $139.5 and $98.0	
Unamortized debt issuance costs	
Other assets	
Total other assets	
Property and equipment, net of accumulated depreciation of $362.4 and $299.8	
Total assets	$

See accompanying notes to consolidated financial st

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KAR Auction Services, Inc.

Consolidated Balance Sheets (Continued

(In millions, except share and per share da

Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable	$
Accrued employee benefits and compensation expenses	
Accrued interest	
Other accrued expenses	
Income taxes payable	
Obligations collateralized by finance receivables	
Current maturities of long-term debt	
Total current liabilities	
Non-current liabilities	
Long-term debt	
Deferred income tax liabilities	
Other liabilities	
Total non-current liabilities	
Commitments and contingencies (Note 16)	
Stockholders' equity	
Preferred stock, $0.01 par value: Authorized shares: 100,000,000 Issued shares: none	
Common stock, $0.01 par value: Authorized shares: 400,000,000 Issued and outstanding shares: 136,271,358 (2011) 135,493,537 (2010)	
Additional paid-in capital	
Accumulated deficit	
Accumulated other comprehensive income	
Total stockholders' equity	
Total liabilities and stockholders' equity	$

See accompanying notes to consolidated financial st

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KAR Auction Services, Inc.

Consolidated Statements of Stockholders' Ec

(In millions)

	Common Stock Shares		Common Stock Amount		Additional Paid-In Capital		Accum Def
Balance at December 31, 2008	106.9	$	1.1	$	1,028.8	$	
Comprehensive income:							
Net income							
Other comprehensive income, net of tax:							
Unrealized gain on interest rate derivatives							
Foreign currency translation							
Unrealized loss on postretirement benefit obligation							
Comprehensive income							
Issuance of common stock	27.6		0.3		310.0		
Stock-based compensation expense					16.4		
Balance at December 31, 2009	134.5	$	1.4	$	1,355.2	$	
Comprehensive income:							
Net income							
Other comprehensive income (loss), net of tax:							
Unrealized loss on interest rate derivatives							
Foreign currency translation							
Unrealized loss on postretirement benefit obligation							
Comprehensive income							
Issuance of common stock under stock plans	1.0				4.9		
Stock-based compensation expense					19.8		
Excess tax benefits from stock-based compensation					1.7		
Balance at December 31, 2010	135.5	$	1.4	$	1,381.6	$	
Comprehensive income:							
Net income							
Other comprehensive income, net of tax:							
Unrealized gain on interest rate derivatives							

Early termination of swap agreement						
Foreign currency translation						
Comprehensive income						
Issuance of common stock under stock plans	0.8				6.0	
Stock-based compensation expense					17.0	
Excess tax benefits from stock-based compensation					1.8	
Balance at December 31, 2011	**136.3**	**$**	**1.4**	**$**	**1,406.4**	**$**

See accompanying notes to consolidated financial st

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KAR Auction Services, Inc.

Consolidated Statements of Cash Flows

(In millions)

	Year En	
	2011	
Operating activities		
Net income	$	72.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		179.8
Provision for credit losses		8.3
Deferred income taxes		(3.5)
Amortization of debt issuance costs		10.1
Stock-based compensation		17.0
Contingent consideration adjustment		(4.6)
(Gain) loss on disposal of fixed assets		(0.2)
Loss on extinguishment of debt		53.5
Other non-cash, net		9.8
Changes in operating assets and liabilities, net of acquisitions:		
Finance receivables held for sale		0
Retained interests in finance receivables sold		0
Trade receivables and other assets		1.5
Accounts payable and accrued expenses		(38.1)
Net cash provided by operating activities		305.8
Investing activities		
Net increase in finance receivables held for investment		(120.1)
Acquisition of businesses, net of cash acquired		(214.6)
Purchases of property, equipment and computer software		(85.8)
Proceeds from the sale of property and equipment		0.3
Decrease in restricted cash		0.4
Net cash used by investing activities		(419.8)
Financing activities		
Net (decrease) increase in book overdrafts		32.5
Net (decrease) increase in borrowings from lines of credit		68.9
Net increase in obligations collateralized by finance receivables		90.2
Proceeds from long-term debt		1,691.5
Payments for debt issuance costs/amendments		(30.6)
Payments on long-term debt		(1,153.1)
Payment for early extinguishment of debt		(600.7)
Payments on capital leases		(8.5)
Payments of contingent consideration and deferred acquisition costs		(3.9)
Initial net investment for interest rate caps		(1.1)
Proceeds from issuance of common stock, net of costs		0
Issuance of common stock under stock plans		6.0

Excess tax benefits from stock-based compensation		**1.8**
Net cash provided by financing activities		**93.0**
Effect of exchange rate changes on cash		**(0.7)**
Net increase (decrease) in cash and cash equivalents		**(21.7)**
Cash and cash equivalents at beginning of period		**119.1**
Cash and cash equivalents at end of period	**$**	**97.4**
Cash paid for interest	**$**	**136.8**
Cash paid for taxes, net of refunds	**$**	**36.5**

See accompanying notes to consolidated financial st

KAR Auction Services, Inc.

Notes to Consolidated Financial Statemen

December 31, 2011, 2010 and 2009

Note 1 Organization and Other Matters

KAR Auction Services, Inc. was organized in the State of Delawa
We are a holding company that was organized for the purpose of cons
ADESA, Inc. and related transactions that resulted in ADESA and Ins
becoming, directly or indirectly, subsidiaries of the Company. We had
merger transactions on April 20, 2007.

Defined Terms

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

"we," "us," "our," "KAR Auction Services" and "t
collectively, to KAR Auction Services, Inc. and a
the context otherwise requires;

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

"AFC" refers, collectively, to Automotive Finance
owned subsidiary of ADESA and its related subsi

"Axle LLC" refers to Axle Holdings II, LLC, whi
certain of the Equity Sponsors (Kelso & Company
members or former members of IAA management
connection with the acquisition of IAA in 2005. A
ultimate parent company of IAA and is a holder o
in KAR LLC;

"Credit Agreement" refers to the Credit Agreemen
among KAR Auction Services, as the borrower, th
financial institutions or entities from time to time
administrative agent;

"2007 Credit Agreement" refers to the previous C
April 20, 2007, among KAR Auction Services, as
as guarantor, the several lenders from time to time
administrative agent, the joint bookrunners, the co
syndication agent and the joint lead arrangers nam
June 10, 2009, October 23, 2009 and November 1
Agreement was terminated concurrently with our
Agreement described above;

"Credit Facility" refers to the $1.7 billion, six-year
facility and the $250 million, five-year senior secu
facility, the terms of which are set forth in the Cre

"Equity Sponsors" refers, collectively, to Kelso In
VII, L.P., GS Capital Partners VI, L.P., ValueAct
and Parthenon Investors II, L.P., which collectivel
respective affiliates a majority of the equity of KA

"IAA" refers, collectively, to Insurance Auto Auct
subsidiary of KAR Auction Services, and its subsi

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 1 Organization and Other Matters (Continued)

"KAR LLC" refers to KAR Holdings II, LLC, whi
the Equity Sponsors and management of the Comp

Initial Public Offering

KAR Auction Services' sold 25,000,000 shares of common stock
in December 2009. The offering resulted in gross proceeds of $300 mi
discounts and offering expenses. In addition, in December 2009, the u
portion of their overallotment option, and as a result an additional 2,65
stock were sold for gross proceeds of $31.9 million, before underwrite
the initial public offering and the underwriters' partial exercise of the o
received net proceeds of $310.3 million, after deducting underwriter d
and additional offering-related expenses of $2.5 million.

We used the $310.3 million of net proceeds from the initial publi
overallotment option, together with $199.0 million of cash on hand, to
our former senior secured term loan (Old Term Loan B) in December
$225.6 million of our 10% senior subordinated notes in January 2010,
net premiums payable related to the notes repurchase in January 2010,
amendment fees related to Old Term Loan B in December 2009, and (
termination fees in December 2009 to our Equity Sponsors in connecti
our financial advisory agreements with each of them.

Business and Nature of Operations

As of December 31, 2011, we have a network of online whole ca
whole car auction sites and 159 IAA salvage vehicle auction sites. Ou
of used and salvage vehicles through physical, online or hybrid auctio
internet buyers to participate in physical auctions. ADESA Auctions a
national providers of wholesale and salvage vehicle auctions and relat
services for the automotive industry in North America. Our online ser
OPENLANE, a leader in internet-based remarketing solutions, and all
sale from any location. Remarketing services include a variety of activ
used and salvage vehicles between sellers and buyers throughout the v
Auctions and IAA facilitate the exchange of these vehicles through an
which aligns sellers and buyers. As an agent for customers, the Compa
title to or ownership to vehicles sold at the auctions. Generally fees ar
buyer on each successful auction transaction in addition to fees earned

ADESA has the second largest used vehicle auction network in N
the number of used vehicles sold through auctions annually, and also p
inbound and outbound logistics, reconditioning, vehicle inspection an
administrative and salvage recovery services. ADESA is able to serve
multi-faceted needs of its customers through the wide range of service

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 1 Organization and Other Matters (Continued)

IAA is one of the two largest providers of salvage vehicle auctior
North America. The salvage auctions facilitate the remarketing of dam
designated as total losses by insurance companies, recovered stolen ve
insurance settlement with the vehicle owner has already been made an
donated to charity or sold by dealers in salvage auctions. The salvage a
in providing services such as inbound and outbound logistics, inspecti
settlement administrative services.

AFC is a leading provider of floorplan financing to independent u
this financing was provided through 103 locations throughout North A
2011. Floorplan financing supports independent used vehicle dealers i
purchase vehicles at ADESA, IAA, independent auctions and auctions
auction networks.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of KA
of its wholly owned subsidiaries. Significant intercompany transaction
eliminated.

Use of Estimates

The preparation of the consolidated financial statements in confo
principles generally accepted in the U.S. requires management to mak
assumptions about current, and for some estimates, future economic a
affect the reported amounts of assets and liabilities and disclosure of c
liabilities at the date of the financial statements and the reported amou
expenses during the period. Although the current estimates contemplat
expected future changes, as appropriate, it is reasonably possible that f
differ from these estimates, which could materially affect our results o
position. Among other effects, such changes could result in future imp
intangible assets and long-lived assets, incremental losses on finance r
allowances on accounts receivable and deferred tax assets and changes

Business Segments

Our operations are grouped into three operating segments: ADES
The three operating segments also serve as our reportable business seg
measured through detailed budgeting and monitoring of contributions
each business segment.

Derivative Instruments and Hedging Activity

We recognize all derivative financial instruments in the consolida
fair value in accordance with ASC 815, *Derivatives and Hedging*. We
rate caps that are designated and qualify as cash flow hedges to manag

flows to be paid due to interest rate movements on our variable rate de
enter into hedging contracts for trading or speculative purposes. The fa
rate derivatives are based on quoted

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

market prices for similar instruments from commercial banks. The fair
recorded in "Other assets" or "Other liabilities" on the consolidated ba
gain or loss position of the contracts and their remaining term. Change
interest rate derivatives designated as cash flow hedges are recorded n
comprehensive income." Gains and losses on the interest rate derivativ
included in earnings as an adjustment to interest expense in the same p
interest payment being hedged is recognized in earnings. We use the c
flows method to assess hedge effectiveness in accordance with ASC 8

Foreign Currency Translation

Revenues and expenses denominated in foreign currencies are tra
average exchange rates in effect during the year. Assets and liabilities
translated using the exchange rates in effect at year end. Foreign curre
losses are included in the consolidated statements of income within "C
net" and resulted in a loss of $0.9 million for the year ended December
$1.1 million and $9.2 million for the years ended December 31, 2010 a
Adjustments arising from the translation of net assets located outside t
are shown as a component of "Accumulated other comprehensive inco

Cash Equivalents

All highly liquid investments with an original maturity of three m
considered to be cash equivalents. These investments are valued at cos
value.

Restricted Cash

AFC Funding Corporation, a wholly owned, bankruptcy remote,
purpose subsidiary of AFC, is required to maintain a cash reserve of 1
sold to the bank conduit facility as security for the receivables sold. A
Canada, Inc. ("AFCI") is also required to maintain a cash reserve of 1
sold to its securitization facility. The amount of the cash reserve depe
are set forth in the securitization agreements. AFC also maintains othe
to time associated with its banking relationships. In addition, ADESA
bank related to vendor purchases.

Receivables

Trade receivables include the unremitted purchase price of vehicl
parties at the auctions, fees to be collected from those buyers and amo
by us related to certain consigned vehicles in our possession. These an
the consigned vehicles are generally deducted from the sales proceeds
or other disposition of the related vehicles.

Finance receivables include floorplan receivables created by fina
vehicles in exchange for a security interest in those vehicles and speci
receivables become due at the earlier of the dealer subsequently sellin

predetermined time period

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

(generally 30 to 60 days). Special purpose loans relate to loans that are
or working capital loans that can be either secured or unsecured based
circumstances of the specific loans.

Due to the nature of our business, substantially all trade and finan
from vehicle dealers, salvage buyers, institutional sellers and insuranc
possession of vehicles or vehicle titles collateralizing a significant port
finance receivables.

Trade receivables and finance receivables are reported net of an a
accounts and credit losses. The allowances for doubtful accounts and c
management's evaluation of the receivables portfolio under current co
portfolio, overall portfolio credit quality, review of specific collection
factors which in management's judgment deserve recognition in estima
January 1, 2010, finance receivables held for sale were carried at lowe
value was based upon estimates of future cash flows including estimat
losses. Estimated losses for receivables sold by AFC Funding Corpora
facility with recourse to AFC Funding Corporation (see Note 6) were
expense.

Other Current Assets

Other current assets consist of inventories, prepaid expenses, taxe
receivable. The inventories, which consist of vehicles, supplies, and pa
the specific identification method, and are stated at the lower of cost o

Goodwill

Goodwill represents the excess of cost over fair value of identifia
acquired. Goodwill is tested for impairment annually in the second qu
impairment indicators arise. The goodwill impairment test is a two-ste
the fair value of each reporting unit is compared with its carrying valu
the fair value of the reporting unit is less than its carrying value, an in
impairment exists for the reporting unit and we must perform step two
(measurement). Under step two, an impairment loss is recognized for a
amount of the reporting unit's goodwill over the implied fair value of t
fair value of goodwill is determined by allocating the fair value of the
similar to a purchase price allocation, in accordance with ASC 805, *Bu*
residual fair value after this allocation is the implied fair value of the r
value of the reporting unit is determined using a discounted cash flow
the reporting unit exceeds its carrying value, step two does not need to

Customer Relationships and Other Intangible Assets

Customer relationships are amortized on a straight-line basis over
valuation of the particular acquisition. Other intangible assets generall
computer software and non-compete agreements, and if amortized, are
straight-line method. Tradenames with indefinite lives are not amortiz

have been assigned a

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

useful life are amortized over their estimated useful lives. Costs incurr
developed or obtained for internal use are capitalized during the applic
software development and amortized over their estimated useful lives.
agreements are amortized over the life of the agreements. The lives of
re-evaluated periodically when facts and circumstances indicate that re
lives may be warranted.

Property and Equipment

Property and equipment are stated at historical cost less accumula
Depreciation is computed using the straight-line method at rates intenc
of assets over their estimated useful lives. Upon retirement or sale of p
cost of the disposed assets and related accumulated depreciation is rem
and any resulting gain or loss is credited or charged to selling, general
expenses. Expenditures for normal repairs and maintenance are charge
Additions and expenditures for improving or rebuilding existing assets
are capitalized. Leasehold improvements made either at the inception o
lease term are amortized over the shorter of their economic lives or the
renewals that are reasonably assured.

Unamortized Debt Issuance Costs

Debt issuance costs reflect the expenditures incurred in conjuncti
senior notes, the senior subordinated notes, the bank credit facility and
receivables purchase agreements. The debt issuance costs are being an
interest method over their respective lives to interest expense.

Other Assets

Other assets consist of below market leases, deposits and other lo

Long-Lived Assets

Management reviews our property and equipment, customer relat
intangible assets for impairment whenever events or changes in circum
carrying amount may not be recoverable. The determination includes e
as current market value, future asset utilization, business climate, and f
to result from the use of the related assets. If the carrying amount of a
the total amount of the estimated undiscounted future cash flows from
recognized in the period to the extent that the carrying amount exceeds
The impairment analysis is based on our current business strategy, exp
estimated future economic and regulatory conditions.

Accounts Payable

Accounts payable include amounts due sellers from the proceeds
consigned vehicles less any fees, as well as outstanding checks to selle
overdrafts,

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

representing outstanding checks in excess of funds on deposit, are reco
payable" and amounted to $136.5 million and $104.0 million at Decem
respectively.

Environmental Liabilities

Accruals for environmental matters are recorded when it is proba
incurred and the amount of the liability can be reasonably estimated, b
existing technologies. These accruals are adjusted periodically as asses
efforts progress, or as additional technical or legal information become
environmental liabilities are included in "Other accrued expenses" at u
exclude claims for recoveries from insurance or other third parties.

Revenue Recognition

ADESA Auction Services

Revenues and the related costs are recognized when the services a
from sellers and buyers are recognized upon the sale of the vehicle thr
Most of the vehicles that are sold through auctions are consigned to AI
held at ADESA's facilities or third party locations. ADESA does not ta
vehicles and recognizes revenue when a service is performed as reques
vehicle. ADESA does not record the gross selling price of the consigne
as revenue. Instead, ADESA records only its auction fees as revenue b
to the consigned vehicles, has no influence on the vehicle auction selli
seller and buyer at the auction and the fees that ADESA receives for it
fixed amount. Revenues from reconditioning, logistics, vehicle inspect
titling, evaluation and salvage recovery services are generally recogniz
performed.

IAA Salvage Services

Revenues (including vehicle sales and fee income) are generally r
vehicles are sold at auction. Revenue not recognized at the date the veh
includes annual buyer registration fees, which are recognized on a stra
buyer-related fees, which are recognized when payment is received.

AFC

AFC's revenue is comprised of interest and fee income, provision
revenues associated with our finance receivables. Prior to January 1, 2
was

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

comprised primarily of securitization income and interest and fee inco
credit losses. The following table summarizes the primary component

AFC Revenue (In millions)	Year Ended December 31, 2011	2010	2009
Securitization income	**$**	$	$ 41.7
Interest and fee income	**163.7**	137.9	48.1
Other revenue	**11.2**	9.6	6.2
Provision for credit losses	**(6.1)**	(11.2)	(2.1)
	$ 168.8	$ 136.3	$ 93.9

Securitization income

AFC generally sells its U.S. dollar denominated finance receivab
private securitization structure. As of January 1, 2010, our consolidate
longer reflects securitization income as a result of adopting Accountin
2009-16. Additionally, we no longer record a gain on sale for securitiz
receivables securitized no longer receive gain on sale treatment. Prior
securitization income was primarily comprised of the gain on sale of f
also included servicing income, discount accretion, and any change in
retained interest in finance receivables sold. Gains and losses on the sa
recognized upon transfer to the bank conduit facility. Interest expense
sale agreement which was included in securitization income prior to Ja
included in "Interest expense" on the consolidated statement of incom

Interest and fee income

Interest on finance receivables is recognized based on the numbe
remains financed. AFC ceases recognition of interest on finance receiv
become delinquent, which is generally 31 days past due. Dealers are a
floorplan a vehicle ("floorplan fee") and extend the terms of the receiv
AFC fee income including floorplan and curtailment fees is recognize
finance receivable.

Other revenue

Previously, certain AFC fees collected from customers were nette
as well as certain selling, general and administrative expenses. Such fe
filing fees and postage fees, each of which are charged to and collecte
Beginning in 2011, these fees were included in revenue with the corre
their respective expense categories resulting in an increase to "Other r
related expenses for all periods

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

presented. As a result, AFC's revenue, cost of services and selling, gen
expenses were revised as follows:

	Year Ended December 31, 2010 As Previously Reported	Revised	A
Revenue	$ 128.7	$ 136.3	$
Cost of services (exclusive of depreciation and amortization)	28.5	34.1	
Selling, general and administrative	18.6	20.6	

Loan origination costs

Loan origination costs incurred by AFC in originating floorplan r
at the origination of the customer contract. Such costs for receivables r
the estimated life of the customer contract. Costs associated with recei
January 1, 2010 were included as a reduction in revenue.

Income Taxes

We file federal, state and foreign income tax returns in accordanc
of each jurisdiction. We account for income taxes under the asset and l
accordance with ASC 740, *Income Taxes*. The provision for income ta
foreign, state and local income taxes currently payable, as well as defe
assets and liabilities are recognized for the future tax consequences att
between the financial statement carrying amounts of existing assets an
respective tax bases. Deferred tax assets and liabilities are measured us
expected to apply to taxable amounts in years in which those temporar
to be recovered or settled. If it is more likely than not that some portio
asset will not be realized, a valuation allowance is recognized.

In accordance with ASC 740, we recognize the effect of income t
positions are more likely than not of being sustained. Recognized inco
measured at the largest amount that is greater than 50% likely of being
recognition or measurement are reflected in the period in which the ch

Net Income per Share

Basic net income per share is computed by dividing net income b
common shares outstanding during the year. Diluted net income per sh
divided by the sum of the weighted average common shares outstandir
instruments such as stock options. The effect of stock options on net in
determined through the application of the treasury stock method, wher
by the Company based on assumed exercises are hypothetically used t
stock at the average market price during the period. Stock options that
anti-dilutive effect on net income per share are excluded from the calc

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 2 Summary of Significant Accounting Policies (Continued)

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under ASC *Compensation*. We recognize all stock-based compensation as expens and that cost is measured as the fair value of the award at the grant dat awards, while liability-classified awards are remeasured each reportin also consider estimated forfeitures in determining compensation exper accordance with ASC 718, cash flows resulting from tax deductions fr options in excess of recognized compensation cost (excess tax benefit cash flows.

New Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB Standards Update ("ASU") 2011-05, *Comprehensive Income (Topic 2 Comprehensive Income*. The new guidance requires an entity to prese comprehensive income, the components of net income and the compo comprehensive income, either in a single continuous statement of com two separate but consecutive statements. ASU 2011-05 eliminates the components of other comprehensive income as part of the statement o 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date f Presentation of Reclassifications of Items Out of Accumulated Other C ASU 2011-05*, to defer the effective date of the specific requirement to reclassified out of accumulated other comprehensive income to net inc respective components of net income and other comprehensive incom ASU 2011-05 are effective for the first annual reporting period, and in years, beginning after December 15, 2011, and should be applied retro expect the adoption of ASU 2011-05 will have a material impact on th statements.

Reclassifications and Revisions

Certain prior year amounts in the consolidated financial statemen revised to conform to the current year presentation.

Note 3 Acquisitions

2011 Acquisitions

In August 2011, ADESA entered into an Agreement and Plan of Agreement") with OPENLANE. In October 2011, we completed the a which became a wholly owned subsidiary of ADESA. OPENLANE is automotive auction company that provides a market for online buyers vehicles. OPENLANE offers its comprehensive remarketing solutions captive finance companies, lease and daily rental companies, used veh institutions and wholesale auto auctions throughout the United States

As a result of the merger and pursuant to the terms of the Merger
outstanding share of OPENLANE common stock and preferred stock (
common stock or preferred stock held by OPENLANE) was convertec
amount in cash as set

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 3 Acquisitions (Continued)

forth in the Merger Agreement. The value of the cash consideration pa
$208.4 million plus approximately $35 million for excess cash on OPE
the closing of the merger. We funded the cash consideration paid at cl
approximately $98.4 million of existing cash on-hand and borrowings
$145 million from our revolving credit facility. We utilized approxima
acquired cash to immediately repay a portion of the borrowings on the
addition, we entered into operating lease obligations related to various
Initial annual lease payments for the various facilities are approximate
Financial results for the acquisition have been included in our consoli
from the date of acquisition. In the fourth quarter of 2011, OPENLAN
$16.4 million and had a net loss of $2.7 million, or $0.02 per diluted s

During 2011, we completed the acquisitions of a company that au
company that develops satellite-based, GPS technology for advanced v
salvage facility. The purchase agreements included contingent paymen
results and business deployments subsequent to the purchase date. The
fixed assets, software, inventory, accounts receivable and other intang
for each acquisition have been included in our consolidated financial s
acquisition.

The aggregate purchase price for the businesses acquired in 2011
approximately $214.0 million, which includes estimated contingent pa
value of $0.4 million. The maximum amount of undiscounted conting
these acquisitions could approximate $0.4 million. The purchase price
was allocated to acquired assets and liabilities based upon fair values,
intangible assets, representing the fair value of acquired customer rela
software and noncompete agreements, which are being amortized over
The acquisitions resulted in aggregate goodwill of $123.6 million. The
acquisitions, including pro forma financial results, was immaterial to t
operations.

Some of our acquisitions from prior years include contingent pay
or unit volumes of certain vehicles sold subsequent to the purchase da
payments in 2011, 2010 and 2009 totaling approximately $1.8 million
$1.6 million, respectively, pursuant to these agreements, which result
addition, in 2011, we reversed contingent consideration of approxima
certain prior year acquisitions based on revised forecasts which indica
required during the measurement period in order for the contingent co
payable would not be met. The net $4.6 million of contingent conside
recorded to "Other (income) expense, net" in the consolidated stateme

2010 Acquisitions

During the fourth quarter of 2010 the Company completed the ac
vehicle auctions, two processors of charity donation vehicles which ar
salvage operations, a loan servicing company focused on servicing loa
lenders and a company focused on remarketing repossessed vehicles f
various purchase agreements included contingent payments related to
subsequent to the

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 3 Acquisitions (Continued)

purchase dates. The purchased assets included land, buildings, account
equipment, customer relationships and other intangible assets. In addit
operating lease obligations related to certain facilities with initial annu
aggregating approximately $0.8 million. Financial results for each acq
in our consolidated financial statements from the date of acquisition.

The aggregate purchase price for the businesses acquired in 2010
$59.4 million, which includes estimated contingent payments with a p
$10.7 million. The maximum amount of undiscounted contingent payr
acquisitions could approximate $11.1 million. The purchase price for t
allocated to acquired assets and liabilities based upon fair values, inclu
intangible assets, representing the fair value of acquired customer relat
noncompete agreements which are being amortized over their expecte
acquisitions resulted in aggregate goodwill of $26.2 million. The finan
acquisitions, including pro forma financial results, was immaterial to t
sheet and statement of income.

Note 4 Stock-Based Compensation Plans

Our stock-based compensation expense includes expense associat
Services, Inc. service and exit option awards, KAR LLC operating uni
operating unit awards. We have classified the KAR LLC and Axle LL
liability awards. In February 2009, our board took certain actions relat
compensation plans which resulted in all outstanding option awards be
awards prospectively. On December 10, 2009, in conjunction with the
board rescinded its actions from February 2009 which resulted in all s
classified as equity awards. In addition, the exit options were modified
options becoming equity classified. The main difference between a lia
an equity-classified award is that liability-classified awards are remeas
at fair value. The modifications are discussed in more detail below.

The compensation cost that was charged against income for all st
plans was $17.0 million, $19.8 million and $16.4 million for the years
2010 and 2009, respectively, and the total income tax benefit recogniz
statement of income for options was approximately $6.1 million, $6.6
for the years ended December 31, 2011, 2010 and 2009, respectively.
stock-based compensation cost in the years ended December 31, 2011
following table summarizes our stock-based compensation expense by
millions):

	Year Ended December 31,		
	2011	**2010**	**2009**
Service options	**$ 1.2**	$ 0.3	$ 7.8
Exit options	**15.9**	18.0	0.2
KAR LLC profit interests	**0.3**	1.6	4.2
Axle LLC profit interests	**(0.4)**	(0.1)	4.2
Total	**$ 17.0**	$ 19.8	$ 16.4

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

Axle Holdings, Inc. Stock Incentive Plan

Prior to the merger transactions, IAA was a subsidiary of Axle H
Holdings"), which in turn was a subsidiary of Axle LLC. Axle Holdin
Holdings, Inc. Stock Incentive Plan to provide equity incentive benefi
Under the Axle Holdings plan, service options and exit options were a
options vested in three equal annual installments from the grant date b
Axle Holdings and its subsidiaries. The exit options vested upon a cha
Axle LLC. In connection with the completion of the merger transactio
5.8 million options (service and exit) to purchase shares of Axle Holdi
converted into approximately 2.3 million options (service and exit) to
Auction Services; these converted options have the same terms and co
to the options to purchase shares of Axle Holdings, Inc. The fair value
for which service had been provided approximated $8.9 million and w
merger price. The converted options are included in the KAR Auction
option table and exit option table below.

Prior to December 10, 2009, compensation cost was recognized u
attribution method over the requisite service period for the unvested se
the date of the merger. As the ultimate exercisability of the exit option
contingent upon an event (specifically, a change of control), the comp
the exchanged exit options was not expected to be recognized until su
consummated. However, on December 10, 2009, in conjunction with t
all outstanding service options became fully vested and exercisable. In
criteria and exercisability of the exit options were modified. Our boar
exit options to substitute the existing criteria governing the exercisabil
criteria governing exercisability based on the price per share of our co
rather than vest upon the achievement of certain specified

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

performance goals at the time of an exit event, the exit options origina
Holdings, Inc. Stock Incentive Plan vest as follows:

Amount Vested	Conditi
25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $16.01
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $19.21
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $22.41
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $25.62

*

Additional conditions to vesting: (ii) the price of the Compa
last trading day of a 90 consecutive trading day period must
85% of $16.01, $19.21, $22.41 or $25.62, respectively; and
director, officer, employee, consultant or agent of the Comp
subsidiaries on the date on which the conditions set forth in
satisfied.

For purposes of determining the conditions to vesting, the "f
share of Company common stock, on any date of determinat
for 90 consecutive trading days prior to such date of determi
price for a share of Company common stock on the principa
which the Company common stock is then listed.

In May 2011, the vesting criteria for the first 25% of the exit opti
25% of the outstanding exit options became exercisable.

Axle LLC Profit Interests

Axle LLC also maintained two types of profit interests, operating
which are held by certain designated employees of IAA. Upon an exit
Axle LLC operating agreement, holders of the profit interests will rece
from Axle LLC. The service requirement for the operating units was f
such the operating units are fully vested. The value units vest upon a c
Axle LLC. The number of value units eligible for distribution will be c
strike price and certain performance hurdles based on the Equity Spon
achievement of certain multiples on their original indirect equity inves
subject to a minimum internal rate of return at the time of distribution.
operating units and 382,304 value units are maintained by

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KAR Auction Services, Inc.

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Note 4 Stock-Based Compensation Plans (Continued)

Axle LLC and there were no changes to the terms and conditions of th
merger transactions.

The operating units are accounted for as liability awards and as su
related to the operating units is recognized using the graded-vesting at
years ended December 31, 2011 and 2010, $0.4 million and $0.1 milli
compensation expense for the Axle LLC operating units was reversed
operating units declined. Compensation expense for the year ended De
$4.2 million. As of December 31, 2011, the Axle LLC operating units

The Company has not recorded compensation expense related to
will be recognized on the value units until it becomes probable that an
change in control) will occur.

KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan

We adopted the KAR Auction Services, Inc. 2009 Omnibus and S
("Omnibus Plan") in December 2009. The Omnibus Plan is intended t
based awards to our employees. The maximum number of shares that
awards under the Omnibus Plan is approximately 6.5 million. The Om
grant of options, restricted stock, stock appreciation rights, other stock
based awards.

In 2011, we granted approximately 1.3 million service options wi
exercise price of $15.05 per share under the Omnibus Plan, and in 201
approximately 0.5 million service options with a weighted average exe
share. In addition, in 2010 we granted approximately 0.7 million exit o
price per share of $13.46 under the Omnibus Plan. The service and exi
life and the service options vest in four equal annual installments, com
anniversary of the respective grant dates. The exit options contain the
those noted below under the KAR Auctions Services, Inc. Stock Incen

KAR Auction Services, Inc. Stock Incentive Plan

The Company adopted the KAR Auction Services, Inc. Stock Inc
May 2007. The Plan was intended to provide equity incentive benefits
employees. The maximum number of shares that were to be issued pu
Plan was approximately 7.9 million. The Plan provided for the grant o
and non-qualified stock options and restricted stock. Awards granted s
Plan were non-qualified stock options, and no further grants will be av

The Plan provided two types of stock options: service-related opt
ratably in four annual installments from the date of grant based upon t
performance-related "exit" options, which were generally to become e
equity control of KAR LLC. Under the exit options, in addition to the
requirement, the number of options that vest were to be determined ba
certain performance hurdles based on the Equity Sponsors and other in
certain multiples on their original indirect equity investment in KAR A

a minimum internal rate of return at the

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

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Note 4 Stock-Based Compensation Plans (Continued)

time of change in equity control. All vesting criteria was subject to co
KAR LLC or affiliates thereof. Options were to be granted under the P
not less than the fair market value of a share of KAR Auction Services
of grant and have a contractual life of ten years. In the event of a chan
options were to become fully vested and cashed out. In August 2007,
1.6 million service options and 4.9 million exit options, with an exerci
under the Plan. In 2008, we granted approximately 0.2 million service
exit options, with a weighted average exercise price of $16.47 per sha
0.2 million service options and 0.5 million exit options, with an exerci

On December 10, 2009, in conjunction with the initial public offe
service options became fully vested and exercisable. In addition, the v
exercisability of the exit options was modified. The board amended th
substitute the existing criteria governing the exercisability of the exit o
governing exercisability based on the price per share of our common s
than vest upon the achievement of certain specified performance goals
event, the exit options granted under the KAR Auction Services, Inc. S
follows:

Amount Vested	Conditi
25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $20.0
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $25.0
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $30.0
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market va stock exceeds $35.0

*

Additional conditions to vesting: (ii) the price of the Compa
last trading day of a 90 consecutive trading day period must
85% of $20.00, $25.00, $30.00 or $35.00, respectively; and
director, officer, employee, consultant or agent of the Comp
subsidiaries on the date on which the conditions set forth in
satisfied.

For purposes of determining the conditions to vesting, the "f
share of Company common stock, on any date of determinat
for 90 consecutive trading days prior to such date of determi
price for a share of Company common stock on the principa
which the Company common stock is then listed.

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KAR Auction Services, Inc.

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December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

The following table summarizes service option activity under the
for the year ended December 31, 2011:

Service Options	Number		Weighted Average Exercise Price	W A Re Co
Outstanding at January 1, 2011	2,736,473	$	9.61	
Granted	1,263,676		15.05	
Exercised	(729,273)		7.56	
Forfeited	(12,042)		12.34	
Cancelled	(1,241)		13.32	
Outstanding at December 31, 2011	3,257,593	$	12.17	7.4
Exercisable at December 31, 2011	1,632,301	$	9.78	5.5

The intrinsic value presented in the table above represents the am
value of the underlying stock exceeds the exercise price of the option a
intrinsic value changes continuously based on the fair value of our sto
based on KAR Auction Services' closing stock price of $13.50 on Dec
intrinsic value of service options exercised during the year ended Dece
$7.2 million. The fair value of all vested and exercisable service optio
2010 and 2009 was $22.0 million, $30.9 million and $44.5 million, res

We recognized compensation expense for the service options of a
and $0.3 million for the years ended December 31, 2011 and 2010, res
with ASC 718, we determined the fair value of all outstanding service
of the modification (December 10, 2009), using the Black-Scholes opt
value of the modified service options was approximately $19.6 millio
compensation expense for the service options of approximately $7.8 m
December 31, 2009. Since the service options became fully vested in I
recorded the difference between the modified fair value of the awards
compensation expense previously recognized. As of December 31, 20
approximately $6.4 million of unrecognized compensation expense re
options.

With the exception of the period of time between February 2009
service options have been accounted for as equity awards and, as such
was measured based on the fair value of the award at the date of grant
four year service period, using the straight-line attribution method. Th
value of the service options granted was $4.69 per share, $4.07 per sha
the years ended December 31, 2011, 2010 and 2009, respectively. The
value of all service options modified on December 10, 2009 was $6.09
of service options granted, as well

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

as service options modified on December 10, 2009, was estimated on t
Black-Scholes option pricing model and the following assumptions:

Assumptions	2011	2010
Risk-free interest rate	**0.625% - 1.69%**	0.805% - 1.81%
Expected life	**4 years**	4 years
Expected volatility	**38.0%**	38.0%
Dividend yield	**0%**	0%

Risk-free interest rate This is the yield on U.S. Treasury Securiti
(or date of modification) having a term equal to the expected life of th
risk-free interest rate will increase compensation expense.

Expected life years This is the period of time over which the op
remain outstanding. Options granted by KAR Auction Services had a
years. An increase in the expected life will increase compensation exp

Expected volatility Actual changes in the market value of stock a
volatility assumption. Based on the Company's limited time as a publi
expected volatility used was determined based on a combination of his
volatility of selected comparable companies and other relevant factors
expected volatility will increase compensation expense.

Dividend yield This is the annual rate of dividends per share ove
option. An increase in the dividend yield will decrease compensation e

The following table summarizes exit option activity under the Om
for the year ended December 31, 2011:

Exit Options	Number	Weighted Average Exercise Price	W A Re Co
Outstanding at January 1, 2011	6,490,207	$ 10.50	
Granted		N/A	
Exercised	(33,671)	6.79	
Forfeited	(153,150)	11.80	
Cancelled		N/A	
Outstanding at December 31, 2011	6,303,386	$ 10.49	6.0
Exercisable at December 31, 2011	117,381	$ 6.69	3.9

The intrinsic value presented in the table above represents the am
value of the underlying stock exceeds the exercise price of the option a
intrinsic value changes continuously based on the fair value of our stoc
based on KAR Auction Services' closing stock price of $13.50 on Dec
intrinsic value of exit

KAR Auction Services, Inc.

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December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

options exercised during the year ended December 31, 2011 was $0.4
all vested and exercisable exit options at December 31, 2011 was $1.6

The requisite service period and the fair value of the exit options
date of the modification were developed in consultation with independ
The weighted average fair value of exit options granted in 2010 was $
weighted average fair value of all exit options modified on December
share, and the fair value of the modified exit options was approximatel
horizons over which our stock price is projected to achieve the market
above tables ranges from 1.2 years to 3.9 years. As a result, compensa
recognized over the derived service periods ranging from 1.2 years to
compensation expense for these exit options of approximately $15.9 m
$0.2 million for the years ended December 31, 2011, 2010 and 2009, r
December 31, 2011, there was approximately $10.7 million of total un
expense related to the nonvested exit options.

KAR LLC Profit Interests

Prior to December 10, 2009, KAR LLC owned 100% of the outst
Auction Services. The KAR LLC operating agreement provides for pr
to be granted and held by certain designated employees of the Compan
defined by the KAR LLC operating agreement, and at any other time c
holders of the profit interests will receive a cash distribution from KA

Two types of profit interests were created by the KAR LLC opera
(1) operating units, which vest in four equal installments commencing
the grant date based upon service, and (2) value units, which are eligib
attaining certain performance hurdles. The service requirement for the
fulfilled during 2011 and as such the operating units are fully vested. T
eligible for distributions will be determined based on the strike price a
hurdles based on the Equity Sponsors and other investors' achievemen
their original indirect equity investment in KAR Auction Services sub
return minimum at the time of distribution.

There were approximately 0.1 million operating units awarded an
awarded to employees of the Company in June 2007 with a strike pric
profit interests. The following table summarizes the KAR LLC profit i
year ended December 31, 2011:

Profit Interests:	Operating Units	Value
Outstanding at January 1, 2011	121,046	36
Granted		
Forfeited		
Outstanding at December 31, 2011	121,046	36

The grant date fair value of the operating units and value units wa
respectively. The fair value of each operating unit was estimated on th

Black-

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KAR Auction Services, Inc.

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December 31, 2011, 2010 and 2009

Note 4 Stock-Based Compensation Plans (Continued)

Scholes option pricing model. The fair value of each value unit was es
using a lattice-based valuation model.

The compensation expense of KAR LLC, which is for the benefit
will result in a capital contribution from KAR LLC to the Company ar
for the Company. Compensation expense related to the operating units
straight-line attribution method and resulted in $0.3 million, $1.6 milli
years ended December 31, 2011, 2010 and 2009, respectively. As of D
KAR LLC operating units were fully vested.

The Company has not recorded compensation expense related to
will be recognized until it becomes probable that the performance con
value units will be achieved.

KAR Auction Services, Inc. Employee Stock Purchase Plan

Our board of directors and stockholders adopted the KAR Auctio
Stock Purchase Plan ("ESPP") in December 2009 and the ESPP was in
quarter of 2010. A maximum of 1,000,000 shares of our common stoc
issuance under the ESPP and at December 31, 2011, 883,656 shares re
purchase under the ESPP. The ESPP provides for one month offering
discount from the fair market value of a share on the date of purchase.
718, *Compensation Stock Compensation*, the entire 15% purchase dis
compensation expense. A participant's combined payroll deductions ar
ESPP may not exceed $25,000 per year.

Note 5 Net Income Per Share

The following table sets forth the computation of net income per
per share amounts):

	2011
Net income	$ **72.2**
Weighted average common shares outstanding	**136.0**
Effect of dilutive stock options	**1.8**
Weighted average common shares outstanding and potential common shares	**137.8**
Net income per share	
Basic	$ **0.53**
Diluted	$ **0.52**

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 5 Net Income Per Share (Continued)

Basic net income per share was calculated by dividing net income
number of outstanding common shares for the period. Diluted net inco
calculated consistent with basic net income per share including the eff
common shares related to our stock-based employee compensation pro
options on net income per share-diluted is determined through the appl
stock method, whereby proceeds received by the Company based on a
hypothetically used to repurchase our common stock at the average ma
period. Stock options that would have an anti-dilutive effect on net inc
from the calculations. Approximately 0.9 million, 0.6 million and 0.6
excluded from the calculation of diluted net income per share for the y
2011, 2010 and 2009, respectively. Total options outstanding at Decen
2009 were 9.6 million, 9.2 million and 9.2 million, respectively.

Note 6 Allowance for Credit Losses and Doubtful Accounts

The following is a summary of the changes in the allowance for c
finance receivables (*in millions*):

	Year Ended December 31,		
	2011	**2010**	**2009**
Allowance for Credit Losses			
Balance at beginning of period	**$ 9.7**	$ 5.9	$ 6
Provision for credit losses	**6.1**	11.2	1
Recoveries	**4.5**	4.0	0
Less charge-offs	**(11.3)**	(11.4)	(2
Other			0
Balance at end of period	**$ 9.0**	$ 9.7	$ 5

AFC's allowance for credit losses includes estimated losses for fi
held on the balance sheet of AFC and its subsidiaries as well as an allo
deterioration in the finance receivables after they were repurchased fro
in 2009. Additionally, an accrued liability of $2.4 million for the estim
by AFC Funding was recorded at December 31, 2009. These loans we
facility with recourse to AFC Funding and came back on the balance s
fair value when they became ineligible under the terms of the collatera
bank conduit facility. The allowance for credit loss activity for 2009 d
incurred when receivables repurchased from the bank conduit facility
as they came back on our balance sheet, which is discussed further in

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 6 Allowance for Credit Losses and Doubtful Accounts (Cont

The following is a summary of changes in the allowance for doub
trade receivables (*in millions*):

	Year Ended December 31,		
	2011	**2010**	**200**
Allowance for Doubtful Accounts			
Balance at beginning of period	**$ 6.3**	$ 6.9	$
Provision for credit losses	**2.2**	2.6	
Less net charge-offs	**(2.1)**	(3.2)	
Balance at end of period	**$ 6.4**	$ 6.3	$

Recoveries of trade receivables were netted with charge-offs, as t
Changes in the Canadian exchange rate did not have a material effect o
doubtful accounts.

Note 7 Finance Receivables and Obligations Collateralized by Fin

AFC sells the majority of its U.S. dollar denominated finance rec
basis and without recourse to a wholly owned, bankruptcy remote, con
subsidiary ("AFC Funding Corporation"), established for the purpose o
finance receivables. A securitization agreement allows for the revolvin
Corporation to a bank conduit facility of undivided interests in certain
subject to committed liquidity.

On April 26, 2011, AFC and AFC Funding Corporation entered i
and Restated Receivables Purchase Agreement (the "Receivables Purc
Receivables Purchase Agreement increased AFC Funding's U.S. comm
$450 million to $650 million and extended the facility's maturity date
June 30, 2014. In addition, the interest costs for amounts borrowed inc
and certain of the covenants and termination events in the Receivables
are tied to the performance of the finance receivables portfolio were m

On May 24, 2011, Automotive Finance Canada, Inc. ("AFCI") en
Restated Receivables Purchase Agreement (the "Canadian Receivables
The Canadian Receivables Purchase Agreement increased AFCI's Can
from C$75 million to C$100 million and extended the facility's maturi
to June 30, 2014. AFCI's committed liquidity is provided through a thi
from the U.S. conduit). The receivables sold pursuant to both the U.S.
securitization agreements are accounted for as secured borrowings.

The following tables present quantitative information about delin
recoveries ("net credit losses") and components of securitized financia
assets

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 7 Finance Receivables and Obligations Collateralized by Fi (Continued)

managed. For purposes of this illustration, delinquent receivables are c
31 days or more past due.

	December 31, 2011		
	Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net D
Floorplan receivables	**$ 877.6**	**$ 3.3**	**$**
Special purpose loans	**5.6**	**0.3**	
Total receivables managed	**$ 883.2**	**$ 3.6**	**$**

	December 31, 2010		
	Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net C Du
Floorplan receivables	$ 765.0	$ 4.8	$
Special purpose loans	6.6	0.8	
Total receivables managed	$ 771.6	$ 5.6	$

The net credit losses for receivables held and sold approximated S
ended December 31, 2009.

AFC's allowance for losses was $9.0 million and $9.7 million at I
December 31, 2010, respectively.

As of December 31, 2011 and 2010, $877.6 million and $763.9 m
finance receivables and a cash reserve of 1 percent of finance receivab
security for the $610.3 million and $520.1 million of obligations colla
receivables at December 31, 2011 and 2010, respectively. The amount
depends on circumstances which are set forth in the securitization agre

Proceeds from the revolving sale of receivables to the bank cond
new loans to customers. AFC, AFC Funding Corporation and AFCI m
financial covenants including, among others, limits on the amount of d
incur, minimum levels of tangible net worth, and other covenants tied
finance receivables portfolio. The securitization agreements also incor
covenants of our credit facility. At December 31, 2011, we were in co
covenants in the securitization agreements.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 7 Finance Receivables and Obligations Collateralized by Fi (Continued)

The following table summarizes certain cash flows received from purpose subsidiaries (*in millions*):

	2011
Proceeds from sales of finance receivables	**N/A**
Servicing fees received	**N/A**
Proceeds received on retained interests in finance receivables sold	**N/A**

Prior to January 1, 2010, retained interests in finance receivables trading securities pursuant to ASC 320, Investments *Debt and Equity* estimated fair value with gains and losses recognized in the consolidat Fair value was based upon estimates of future cash flows, using assum participants would use to value such investments, including estimates over the life of the finance receivables sold. The cash flows were disco discount rate. Our retained interests in finance receivables sold include strip and amounted to $89.8 million at December 31, 2009. Sensitiviti retained interests were insignificant at all periods presented due to the asset.

Accounting Standards Update 2009-16 amended ASC 860, *Trans* adopted the guidance on January 1, 2010. The guidance specifies that transactions on or subsequent to January 1, 2010 under our revolving s in our balance sheet. This resulted in an increase in assets and related Obligations collateralized by finance receivables were $520.1 million addition, the guidance eliminated securitization income accounting an of fee and interest income and interest expense for the finance receiva revolving sale agreement.

Note 8 Goodwill and Other Intangible Assets

Goodwill consisted of the following (*in millions*):

	ADESA Auctions	IAA	AFC
Balance at December 31, 2009	$ 826.6	$ 505.2	$ 19
Increase for acquisition activity	8.8	16.4	
Other	0.2		
Balance at December 31, 2010	$ 835.6	$ 521.6	$ 19
Increase for acquisition activity	123.6	1.8	
Other			
Balance at December 31, 2011	**$ 959.2**	**$ 523.4**	**$ 19**

Goodwill represents the excess cost over fair value of identifiable
acquired. At December 31, 2010, there was $1,554.1 million of goodw
consolidated balance

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KAR Auction Services, Inc.

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December 31, 2011, 2010 and 2009

Note 8 Goodwill and Other Intangible Assets (Continued)

sheet that was recorded as a result of the merger transactions, post mer
contingent consideration related to prior year acquisitions. Goodwill in
as a result of current year acquisitions and contingent consideration rel
acquisitions. The goodwill resulting from the businesses acquired in 20
deductible for tax purposes. Goodwill increased in 2011 primarily as a
acquisitions and contingent consideration related to prior year acquisit
resulting from the businesses acquired in 2011 is not expected to be de

A summary of customer relationships is as follows (*in millions*):

		December 31, 2011			
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gros Carryi Amou
Customer relationships	11 - 19	**$ 1,019.8**	**$ (325.8)**	**$ 694.0**	$ 96

The decrease in customer relationships in 2011 was primarily rela
existing customer relationships and changes in the Canadian exchange
increase in customer relationships recorded in conjunction with 2011 a

A summary of other intangibles is as follows (*in millions*):

		December 31, 2011			
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	G Car An
Tradenames	2 - Indefinite	**$ 197.1**	**$ (2.5)**	**$ 194.6**	$
Computer software & technology	3 - 7	**223.9**	**(118.8)**	**105.1**	
Covenants not to compete	1 - 5	**24.4**	**(18.2)**	**6.2**	
Total		**$ 445.4**	**$ (139.5)**	**$ 305.9**	$

Other intangibles increased in 2011 primarily as a result of compu
acquisitions.

We have acquired software by undertaking capital lease obligatio
capital leases is amortized in a manner consistent with our policy for o
assets included above under the capital leases are summarized below (

Classes of Property	December 31, 2011	2010
Computer software	**$ 2.7**	$
Accumulated amortization	**(0.5)**	
Capital lease assets	**$ 2.2**	$

Amortization expense for customer relationships and other intang
$100.3 million and $90.1 million for the years ended December 31, 20
respectively. Estimated amortization expense for the next five years is
$100.0 million for 2013, $94.5 million for 2014, $85.4 million for 201
2016.

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KAR Auction Services, Inc.

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Note 9 Property and Equipment

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

	Useful Lives (in years)	Dece	
		2011	
Land		$	**260.**
Buildings	3 - 40		**224.**
Land improvements	1 - 20		**130.**
Building and leasehold improvements	1 - 33		**193.**
Furniture, fixtures and equipment	1 - 10		**199.**
Vehicles	1 - 6		**6.**
Construction in progress			**33.**
			1,049.
Accumulated depreciation			**(362.**
Property and equipment, net		$	**686.**

Depreciation expense for the years ended December 31, 2011, 20 million, $71.0 million and $82.3 million, respectively.

We have acquired furniture, fixtures and equipment by undertakin Assets held under the capital leases are depreciated in a manner consis policy for owned assets. The assets included above under the capital le (*in millions*):

Classes of Property	December 31, 2011		December 31, 2010	
Furniture, fixtures and equipment	**$**	**38.0**	$	23.3
Accumulated depreciation		**(13.4)**		(8.6)
Capital lease assets	**$**	**24.6**	$	14.7

Note 10 Self Insurance and Retained Loss Reserves

We self-insure our employee medical benefits, as well as a portio general liability and workers' compensation claims. We have insuranc exposure on individual claims. We also have insurance coverage that l overall automobile, general liability and workers' compensation claims is expensed over the contract periods. We record an accrual for the cla employee medical benefits, automobile, general liability and workers' upon the expected amount of all such claims. Accrued medical benefit compensation expenses are included in "Accrued employee benefits ar while accrued automobile and general liability expenses are included i expenses."

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 10 Self Insurance and Retained Loss Reserves (Continued)

The following is a summary of the changes in the reserves for sel
losses (*in millions*):

	Year Ended December 31,			
	2011		**2010**	
Balance at beginning of period	**$**	**27.1**	$	26.1
Net payments		**(49.2)**		(46.9)
Expense		**46.1**		47.9
Balance at end of period	**$**	**24.0**	$	27.1

Individual stop-loss coverage for medical benefits was $0.3 milli
in 2010. There was no aggregate policy limit for medical benefits for t
The retention for automobile, general liability and workers' compensat
million for both the 2011 and 2010 policy years. The aggregate policy
automobile, general liability and workers' compensation program was
2011and 2010 policy years.

Note 11 Long-Term Debt

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

	Interest Rate	Matu
Old Term Loan B	LIBOR + 2.75%	October 1
New Term Loan B	Adjusted LIBOR + 3.75%	May 18
Old $250 million revolving credit facility	LIBOR + 2.75%	April 19
New $250 million revolving credit facility	Adjusted LIBOR + 3.50%	May 18
Floating rate senior notes	LIBOR + 4.00%	May 01
Senior notes	8.75%	May 01
Senior subordinated notes	10%	May 01
Canadian line of credit	CAD Prime + 1.5%	
Total debt		
Unamortized debt discount		
Current portion of long-term debt		
Long-term debt		

The weighted average interest rate on our variable rate debt was 4
December 31, 2011 and 2010, respectively, and the weighted average
borrowings was 4.9% and 5.0% at December 31, 2011 and 2010, respe

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 11 Long-Term Debt (Continued)

Credit Facilities

On May 19, 2011, we established a new $1.7 billion, six-year sen facility (New Term Loan B in the table above) and a new $250 millio revolving credit facility (New $250 million revolving credit facility in of which are set forth in the Credit Agreement, dated as of May 19, 20 entry into the Credit Agreement, we terminated our previous credit fac 2007 (as amended, the "2007 Credit Agreement"). On May 19, 2011, outstanding and interest due under the 2007 Credit Agreement. No ear were incurred by the Company in connection with the termination of t however, we incurred a non-cash loss on the extinguishment of the ter Credit Agreement (Old Term Loan B in the table above) of $24.5 mill write-off of certain unamortized debt issuance costs.

The new Credit Facility is available for letters of credit, working corporate purposes (including refinancing certain Existing Indebtedne Agreement)). The Credit Agreement provides that with respect to the Facility, up to $75 million is available for letters of credit and up to $7 swing line loans. The Credit Agreement also permits up to $300 millio or term loan commitments from one or more of the existing lenders or consent of the administrative agent).

New Term Loan B was issued at a discount of $8.5 million. The to interest expense over the six-year term of the loan. New Term Loan installments equal to 0.25% of the original aggregate principal amoun September 30, 2011, and the balance is payable at maturity. The Credi mandatory prepayments and reduction in an amount equal to (i) the ne offerings, asset sales and certain insurance recovery events; and (ii) fo or after December 31, 2011, any Excess Cash Flow, as defined in the

The obligations of the Company under the Credit Facility are gua domestic subsidiaries (the "Subsidiary Guarantors") and are secured b assets of the Company and the Subsidiary Guarantors, including but n and perfected first-priority security interests in 100% of the equity int Company's and the Subsidiary Guarantors' domestic subsidiaries and of certain of the Company's and the Subsidiary Guarantors' first-tier f (b) perfected first-priority security interests in substantially all other t of the Company and each Subsidiary Guarantor, subject to certain exc Agreement contains affirmative and negative covenants that we believ for a senior secured credit agreement. The negative covenants include, limitations on capital expenditures, asset sales, mergers and acquisitio dividends, investments and transactions with our affiliates. The Credit to maintain a maximum leverage ratio, provided there are revolving lo in compliance with the covenants in the Credit Agreement at Decemb

New Term Loan B bears interest at an adjusted LIBOR rate plus LIBOR rate floor of 1.25% per annum) and revolving loan borrowing plus 3.50%; however, for specified types of borrowings, the Company loan borrowings at a

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Note 11 Long-Term Debt (Continued)

Base Rate (as defined in the Credit Agreement) plus 2.75% and revolv
Base Rate plus 2.50%. The rate on New Term Loan B was 5.0% at De
addition, if the Company reduces its Consolidated Senior Secured Lev
the Credit Agreement), which is based on a net debt calculation, to lev
Agreement, the applicable interest rate will step down by 25 basis poi
pay a commitment fee of 50 basis points, payable quarterly, on the ave
of the Credit Facility. The fee may step down to 37.5 basis points base
Consolidated Senior Secured Leverage Ratio as described above.

On December 31, 2011, $68.9 million was drawn on the new revo
leaving $181.1 million available under the credit facility. There were r
revolving credit facility at December 31, 2010. In addition, we had rel
credit in the aggregate amount of $28.5 million and $29.4 million at D
December 31, 2010, respectively, which reduce the amount available f
respective credit facilities. The $68.9 million of outstanding borrowing
credit facility have been classified as current debt as the Company inte
outstanding borrowings within the next twelve months.

Senior Notes

In 2007 we issued $450.0 million of 8$^3/_4$% senior notes and $150.
senior notes, both of which were due May 1, 2014. In addition, we issu
senior subordinated notes due May 1, 2015. The floating rate notes we
years, after which they became callable at a premium declining ratably
four. Interest on the floating rate notes is payable quarterly in arrears a
August 1, 2007. The fixed rate notes were non-callable for three years
callable at a premium declining ratably to par at the end of year six. In
notes and the senior subordinated notes was payable semi-annually in
November 1, 2007.

In connection with our initial public offering, we conducted a cas
the notes described above. The tender offer was oversubscribed and as
the identified priority levels, only a portion of the 10% senior subordi
for prepayment. In January 2010, we prepaid $225.6 million principal
subordinated notes with proceeds received from our initial public offe
option to purchase additional shares. We incurred a loss on the extingu
$25.3 million in the first quarter of 2010.

In the fourth quarter of 2010, we conducted another cash tender o
described above. The tender offer was oversubscribed and as such, in a
identified priority levels, only a portion of the 10% senior subordinate
prepayment. In December 2010, we prepaid $68.3 million principal an
subordinated notes with available cash. We incurred a loss on the exti
$7.4 million in the fourth quarter of 2010.

In June 2011, we prepaid $450.0 million principal amount of the
remaining $131.1 million principal balance of the 10% senior subordi
received from New Term Loan B and cash on hand. We incurred a los
the

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 11 Long-Term Debt (Continued)

notes of $29.0 million in the second quarter of 2011 representative of t
related to the repurchase of the notes and the write-off of certain unam

The remaining $150.0 million floating rate senior notes contain c
things, limit the issuance of additional indebtedness, the incurrence of
stock, making certain investments, the payment of dividends or other d
from certain subsidiaries, the sale of assets and subsidiary stock, transa
consolidations, mergers and transfers of assets. All of these limitations
are subject to a number of important qualifications set forth in the inde

Canadian Line of Credit

In 2010, we increased the line of credit available to ADESA Cana
C$8 million. The line of credit bears interest at a rate equal to the Cana
basis points. There were no borrowings under the Canadian line of cre
or 2010. There were related letters of credit outstanding totaling appro
December 31, 2011 and C$1.8 million at December 31, 2010, which r
the Canadian line of credit, but do not affect amounts available for bor
revolving credit facility. The line of credit is guaranteed by certain AD

Future Principal Payments

At December 31, 2011 aggregate future principal payments on lo
(*in millions*):

2012	$ 85.9
2013	17.0
2014	167.0
2015	17.0
2016	17.0
Thereafter	1,606.5
	$ 1,910.4

Note 12 Financial Instruments

Our derivative activities are initiated within the guidelines of doc
management policies. We do not enter into any derivative transactions
purposes.

Interest Rate Risk Management

We are exposed to interest rate risk on our variable rate borrowin
rate fluctuations affect the amount of interest expense we are obligated
we purchased three interest rate caps for an aggregate amount of appro
an aggregate notional amount of $925 million to manage our exposure
on our

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 12 Financial Instruments (Continued)

variable rate New Term Loan B credit facility when one-month LIBO
interest rate cap agreements each had an effective date of August 16, 2
August 16, 2013. The unamortized portion of the $1.1 million investm
assets" on the consolidated balance sheet and is being amortized over t
interest rate caps to interest expense. We are exposed to credit loss in t
non-performance by the counterparties; however, non-performance is

In May 2009, we entered into an interest rate swap agreement wit
$650 million to manage our exposure to interest rate movements on ou
Loan B credit facility. The interest rate swap agreement had an effecti
was scheduled to mature on June 30, 2012 and effectively resulted in a
of 2.19% on $650 million of the Old Term Loan B credit facility. In co
extinguishment of Old Term Loan B in May 2011, we de-designated o
entered into a swap termination agreement. We paid $14.5 million to s
swap. As a result, the $14.5 million was reclassified from other compr
expense.

In May 2009, we also purchased an interest rate cap for $1.3 mill
of $250 million to manage our exposure to interest rate movements on
Loan B credit facility when one-month LIBOR exceeded 2.5%. The in
portion of the old variable rate debt that was not covered by our intere
interest rate cap agreement had an effective date of June 30, 2009 and
The $1.3 million investment was amortized over the life of the interest
expense.

ASC 815 requires companies to recognize all derivative instrume
liabilities at fair value in the balance sheet. In accordance with ASC 8
interest rate derivatives as cash flow hedges. The fair values of the inte
based on quoted market prices for similar instruments from a commerc
table presents the fair value of our interest rate derivatives included in
sheets for the periods presented (*in millions*):

	Asset Derivatives				
	December 31, 2011		**December 31, 2010**		**Dece 2**
Derivatives Designated as Hedging Instruments Under ASC 815	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balan Shee Locati**
Aggregate $925 million notional interest rate caps (new)	Other assets	**$ 1.0**	Other assets	N/A	Other accrued expense
$650 million notional interest rate swap	Other assets	**N/A**	Other assets	$	Other accrued expense
$250 million notional interest rate cap (old)	Other current assets	**N/A**	Other current assets	$	Other accrued expense

The earnings impact of the interest rate derivatives designated as
recorded upon the recognition of the interest related to the hedged deb
the hedging relationships is recognized in current earnings. There was

ineffectiveness in 2011, 2010 or 2009. Unrealized gains or losses on th
are included as a component of "Accumulated other comprehensive in
2011, there was a net unrealized gain totaling $0.1 million, net of tax b
million. At December 31, 2010, there was a

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 12 Financial Instruments (Continued)

net unrealized loss totaling $10.5 million, net of tax benefits of $6.4 m
presents the effect of the interest rate derivatives on our statement of e
statements of income for the periods presented (*in millions*):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Year Ended December 31, 2011	2010	Location of Ga (Loss) Reclassified fr Accumulated OC Income (Effec Portion)
Aggregate $925 million notional interest rate caps (new)	**$ 0.1**	N/A	Interest exper
$650 million notional interest rate swap	**$ 2.1**	$ (7.9)	Interest exper
$250 million notional interest rate cap (old)	**$ 0.3**	$ 0.1	N/A

Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk con
interest-bearing investments, finance receivables, trade receivables and
We maintain cash and cash equivalents, short-term investments, and c
instruments with various major financial institutions. We perform peri
relative credit standing of these financial institutions and companies a
credit exposure with any one institution. Cash and cash equivalents in
investments with maturities of three months or less. Due to the nature
substantially all trade and finance receivables are due from vehicle de
institutional sellers and insurance companies. We have possession of v
collateralizing a significant portion of the trade and finance receivable
this concentration is limited due to the large number of accounts and t
We monitor the creditworthiness of customers to which we grant credi
course of business. In the event of nonperformance by counterparties t
are exposed to credit-related losses, but management believes this cre
periodically reviewing the creditworthiness of the counterparties to th

Financial Instruments

The carrying amounts of trade receivables, finance receivables, o
accounts payable, accrued expenses and borrowings under our short-te
facilities approximate fair value because of the short-term nature of th

The fair value of our notes receivable is determined by calculatin
expected future cash receipts associated with these instruments. The d
equivalent to the current rate offered to us for notes of similar maturiti
2011, the fair value of our notes receivable approximated the carrying

As of December 31, 2011 and 2010, the estimated fair value of ou
to $1,831.0 million and $1,885.4 million, respectively. The estimates c
the market prices for our publicly-traded debt as of December 31, 201
presented on long-term financial instruments are not necessarily indica
would be realized in a current market exchange.

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Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 13 Leasing Agreements

We lease property, computer equipment and software, automobil
pursuant to operating lease agreements with terms expiring through 20
contain renewal provisions upon the expiration of the initial lease term
value purchase provisions. In accordance with ASC 840, *Leases*, renta
recognized ratably over the lease period, including those leases contai
deferred portion of the rent, for the leases containing escalation clause
liabilities" on the consolidated balance sheet.

We also lease furniture, fixtures and equipment under capital leas
substance of the leases is that we are financing the purchase of furnitu
through leases and, accordingly, they are recorded as assets and liabili
liabilities are included in "Other accrued expenses" and "Other liabilit
balance sheet. Depreciation expense includes the amortization of asset
Total future minimum lease payments for non-cancellable operating a
in excess of one year (excluding renewal periods) as of December 31,
millions):

	Operating Leases	Capital Leases
2012	$ 82.1	$ 12.1
2013	76.4	10.0
2014	73.2	6.7
2015	68.2	1.1
2016	62.8	0.3
Thereafter	520.1	
	$ 882.8	$ 30.2
Less: interest portion of capital leases		2.9
Total		$ 27.3

Total lease expense for the years ended December 31, 2011, 2010
$90.0 million, $88.0 million and $86.5 million, respectively.

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December 31, 2011, 2010 and 2009

Note 14 Income Taxes

The components of our income before income taxes and the prov
as follows (*in millions*):

	Year Ended December 3		
	2011	**2010**	**2**
Income (loss) before income taxes:			
Domestic	**$ 26.0**	$ 31.8	$
Foreign	**64.0**	65.0	
Total	**$ 90.0**	$ 96.8	$
Income tax expense (benefit):			
Current:			
Federal	**$ (13.5)**	$ (0.3)	$
Foreign	**26.4**	24.6	
State	**8.4**	5.2	
Total current provision	**21.3**	29.5	
Deferred:			
Federal	**4.3**	7.8	
Foreign	**(4.4)**	(4.5)	
State	**(3.4)**	(5.6)	
Total deferred provision	**(3.5)**	(2.3)	
Income tax expense	**$ 17.8**	$ 27.2	$

The provision for income taxes was different from the U.S. feder
income before taxes, and is reconciled as follows:

	Year Ended Decembe	
	2011	**2010**
Statutory rate	**35.0%**	35.0%
State and local income taxes, net	**1.2%**	2.6%
Reserves for tax exposures	**(18.5)%**	(0.7)%
State NOL valuation allowance reversal		(3.9)%
International operations	**0.5%**	(5.1)%
Stock-based compensation		0.5%
Meals and entertainment	**0.9%**	0.9%
Other, net	**0.7%**	(1.2)%
Effective rate	**19.8%**	28.1%

During 2011, the effective rate benefited from the reversal of $18
for uncertain tax positions due to the expiration of certain statute of lin
effective rate benefited from lower tax rates in state and foreign jurisd

reserves for uncertain tax positions due to the expiration of certain stat
recognition of

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 14 Income Taxes (Continued)

previously unrecognized deferred tax assets. During 2009, the effectiv
lower tax rates in foreign jurisdictions and the release of tax reserves f
due to the expiration of certain statute of limitations. The benefit was p
impact of nondeductible stock compensation expense.

Deferred income taxes reflect the net tax effects of temporary dif
carrying amount of assets and liabilities for financial reporting purpos
income tax purposes. We believe that it is more likely than not that res
will generate sufficient taxable income to realize the deferred tax asset

Deferred tax assets (liabilities) are comprised of the following at

	2011
Gross deferred tax assets:	
Allowances for trade and finance receivables	**$ 5.9** $
Accruals and liabilities	**32.2**
Employee benefits and compensation	**32.1**
Interest rate swap	**(0.1)**
Net operating loss carryforwards	**47.8**
Investment basis difference	**2.1**
Foreign tax credit	**2.0**
Other	**2.7**
Total deferred tax assets	**124.7**
Deferred tax asset valuation allowance	**(13.2)**
Total	**111.5**
Gross deferred tax liabilities:	
Property and equipment	**(31.0)**
Goodwill and intangible assets	**(365.8)**
Other	**(1.1)**
Total	**(397.9)**
Net deferred tax liabilities	**$ (286.4)** $

The gross tax benefit from state and federal net operating loss car
follows (*in millions*):

2012	$ 0.4
2013	0.7
2014	0.7
2015	1.5
2016	0.6
2017 to 2031	43.9

$	47.8

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 14 Income Taxes (Continued)

Undistributed earnings of our foreign subsidiaries were approxim
December 31, 2011. Because these amounts have been or will be perm
properties and working capital, we have not recorded the deferred taxe
earnings. If the undistributed earnings of foreign subsidiaries were to b
would need to be recognized at the U.S. statutory rate, net of any appli
is not practical for us to determine the additional tax that would be inc
these earnings.

We made federal income tax payments, net of federal income tax
and $5.3 million in 2011 and 2010, respectively. We received federal i
federal income tax payments, of $2.8 million in 2009. State and foreig
net of refunds, totaled $36.2 million, $31.0 million and $21.6 million i
respectively.

We apply the provisions of ASC 740, *Income Taxes*. ASC 740 cl
reporting for uncertainty in income taxes recognized in an enterprise's
provisions prescribe a comprehensive model for the financial statemen
measurement, presentation and disclosure of uncertain tax positions ta
on income tax returns.

A reconciliation of the beginning and ending amount of unrecogn
follows (*in millions*):

	December 3	
	2011	2
Balance at beginning of period	**$ 25.9**	$
Increase in tax positions related to acquisitions	**8.6**	
Increase in prior year tax positions	**1.1**	
Decrease in prior year tax positions	**(0.2)**	
Increase in current year tax positions	**1.3**	
Settlements	**(0.7)**	
Lapse in statute of limitations	**(18.6)**	
Balance at end of period	**$ 17.4**	$

The total amount of unrecognized tax benefits that, if recognized,
tax rate was $9.5 million and $25.9 million at December 31, 2011 and

We record interest and penalties associated with the uncertain tax
provision for income taxes on the income statement. We had reserves
$3.4 million and $3.4 million in 2011, 2010 and 2009, respectively, as
penalties, net of tax.

The provision for income taxes involves management judgment r
relevant facts and laws in the jurisdictions in which the Company oper
applicable laws, projected levels of taxable income and tax planning c
tax rate and tax balances recorded by us. In addition, U.S. and non-U.S
periodically review income tax returns filed by us and can raise issues

positions, timing and amount of income or deductions and the allocati
jurisdictions in which we operate. A significant period of time may ela
an income tax return and the ultimate resolution of an issue raised by a
respect to that return. In the normal course of business we are

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 14 Income Taxes (Continued)

subject to examination by taxing authorities in the U.S., Canada, Austr
general, the examination of our material tax returns is completed for th

Based on the potential outcome of the Company's tax examinatio
statute of limitations for specific jurisdictions, it is reasonably possible
remaining unrecognized tax benefits will change within the next 12 m
tax impact on the reserve balance is estimated to be in the range of a $

Note 15 Employee Benefit Plans

401(k) Plan

We maintain a defined contribution 401(k) plan that covers subst
Participants are generally allowed to make non-forfeitable contributio
limits. Throughout 2009 we matched 100 percent of the amounts contr
participant up to 4 percent of the participant's compensation. Effective
matching policy was amended, and as a result the Company matched 5
contributions up to 4%. Effective January 1, 2012, we will begin to ma
amounts contributed by each individual participant up to 4 percent of t
compensation. Participants are 100 percent vested in the Company's co
ended December 31, 2011, 2010 and 2009 we contributed $3.4 million
$6.6 million, respectively.

Postretirement Benefits

IAA assumed the obligation for certain health care and death ben
employees of Underwriters Salvage Company ("USC") in connection
capital stock of USC in 1994.

We apply the applicable provisions of ASC 715, *Compensation*
guidance requires employers to recognize the over funded or under fu
benefit postretirement plan as an asset or liability in its statement of fi
recognize changes in that funded status in the year in which the chang
comprehensive income. ASC 715 also requires an employer to measu
plan as of the date of its year-end statement of financial position, with

The net liability recognized in the balance sheet at December 31,
$0.4 million and $0.5 million, respectively. The amounts recognized a
accumulated other comprehensive income in 2011 and 2010 were $0.3
respectively.

Effective January 20, 1994, the date of the USC acquisition, IAA
participation for active employees. The contribution for 2012 is not ex
$0.1 million.

Note 16 Commitments and Contingencies

We are involved in litigation and disputes arising in the ordinary
actions related to injuries; property damage; handling, storage or dispo
environmental laws and regulations; and other litigation incidental to t
employment matters and dealer disputes. Management considers the li
incurrence of a liability, as well as the

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 16 Commitments and Contingencies (Continued)

ability to reasonably estimate the amount of loss, in determining loss c
estimated loss contingency when it is probable that a liability has been
of loss (or range of possible losses) can be reasonably estimated. Mana
current information available to determine whether accrual amounts sh
for contingencies including litigation and environmental matters are in
expenses" at undiscounted amounts and exclude claims for recoveries
third parties. These accruals are adjusted periodically as assessment an
progress, or as additional technical or legal information becomes avail
actual loss is greater than the amount accrued, this could have an adve
results in that period. Legal fees are expensed as incurred.

We have accrued, as appropriate, for environmental remediation c
incurred at certain of our auction facilities. Liabilities for environment
"Other accrued expenses" were $0.1 million and $0.8 million at Decem
December 31, 2010, respectively. No amounts have been accrued as re
reimbursement or recoveries to offset this liability.

We store a significant number of vehicles owned by various custo
us to be auctioned. We are contingently liable for each consigned vehi
or other disposition, subject to certain natural disaster exceptions. Indi
aggregate insurance coverage is maintained on the consigned vehicles.
are not included in the consolidated balance sheets.

In the normal course of business, we also enter into various other
in our relationships with suppliers, service providers, customers and ot
indemnifications do not materially impact our financial condition or re
indemnifications associated with our actions generally have no dollar l
cannot be quantified.

As noted above, we are involved in litigation and disputes arising
business, such as actions related to injuries; property damage; handling
vehicles; environmental laws and regulations; and other litigation incid
as employment matters and dealer disputes. Such litigation is generally
management, likely to have a material adverse effect on our financial c
operations or cash flows. Legal and regulatory proceedings which coul
below.

IAA Lower Duwamish Waterway

On March 25, 2008, the United States Environmental Protection A
General Notice of Potential Liability (the "General Notice") pursuant t
Request for Information pursuant to Section 104(e) of the Comprehens
Response, Compensation, and Liability Act, or "CERCLA" to IAA for
the Lower Duwamish Waterway ("LDW") Superfund Site in Seattle, W
branch on property it leases in Tukwila, Washington, which is located
this time, the EPA has not demanded that IAA pay any funds or take a
responding to the Section 104(e) Information Request. The EPA has ad
has sent out approximately 60 general notice letters

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 16 Commitments and Contingencies (Continued)

to other parties, and has sent Section 104(e) Requests to more than 25(
investigation has been conducted for this site by some of the potentiall
have also commenced a feasibility study pursuant to CERCLA. IAA is
authorities plan to bring Natural Resource Damage claims against pote
In the General Notice, the EPA informed IAA that it may be a potentia
on presently available information. At this time, the Company does no
information to determine IAA's responsibility for contamination at this
IAA's loss as a result of this potential liability.

In addition, the Washington State Department of Ecology is work
relation to the LDW, primarily to investigate and address sources of po
contributing to the LDW. IAA, the current Tukwila property owner an
property owner are currently in discussion with the Washington State l
concerning possible source control obligations, including an investigat
entering the stormwater system, an analysis of the source of any conta
the system and possible repairs and upgrades to the stormwater captur
2011, IAA submitted results of its stormwater system investigation to
Washington State Department of Ecology source control requirements
obligations, if any, are not expected to have a material impact on futur

Note 17 Comprehensive Income

The components of comprehensive income are as follows (*in mill*

	Ye Dec	
	2011	
Net income	**$ 72.2**	$
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	**(9.0)**	
Unrealized gain (loss) on interest rate derivatives	**1.6**	
Early termination of swap agreement	**9.0**	
Unrealized loss on postretirement benefit obligation		
Comprehensive income	**$ 73.8**	$

The composition of "Accumulated other comprehensive income"
of related tax effects, consisted of the net unrealized gain on the intere
$0.1 million, a $0.2 million unrealized gain on post-retirement benefit
currency translation gain of $27.8 million. The composition of "Accum
comprehensive income" at December 31, 2010, net of related tax effec
unrealized loss on the interest rate derivatives of $10.5 million, a $0.2
post-retirement benefit obligation and a foreign currency translation ga

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Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 18 Fair Value Measurements

We apply ASC 820, *Fair Value Measurements and Disclosures*,
liabilities. ASC 820 defines fair value as the price that would be receiv
to transfer a liability in the principal or most advantageous market for
orderly transaction between market participants at the measurement da
establishes a fair value hierarchy, which prioritizes the inputs used in
three broad levels:

Level 1 Quoted prices in active markets for identi

Level 2 Inputs, other than the quoted prices in act
observable either directly or indirectly. Level 2 in
for similar assets or liabilities in active markets; q
are not active; or other inputs that are observable
principally from or corroborated by observable ma
the full term of the assets or liabilities, such as mo
methodologies.

Level 3 Unobservable inputs that are based on ou
by little or no market activity and are significant to
or liabilities. Unobservable inputs reflect our own
assumptions that market participants would use in
liability. Level 3 assets and liabilities include instr
determination of fair value requires significant ma
estimation.

The following tables summarize our financial assets and liabilitie
a recurring basis in accordance with ASC 820 (*in millions*):

Description	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Signifi Othe Observ Inpu (Level
Assets:			
Interest rate caps	$ **1.0**	$	$
Liabilities:			
Interest rate swap	**N/A**	**N/A**	

Description	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Signific Othe Observa Input (Level
Liabilities:			
Interest rate swap	$ **16.6**	$	$

Interest Rate Caps Under the three interest rate cap agreements p
we receive interest on a notional amount when one-month LIBOR exc
agreements effectively hedge a portion of the New Term Loan B credi
the interest rate caps is based on quoted market prices for similar instru
banks.

Interest Rate Swap Under the interest rate swap agreement, we p
notional amount and received a variable LIBOR rate which effectively
Old

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 18 Fair Value Measurements (Continued)

Term Loan B credit facility. The fair value of the interest rate swap wa
prices for similar instruments from a commercial bank.

Note 19 Related Party Transactions

Financial Advisory Agreements

The Equity Sponsors own the controlling interest in KAR LLC. U
financial advisory agreements between the Equity Sponsors and KAR
completion of the merger and contribution, we (1) paid the Equity Spo
$34.7 million and (2) commenced paying an annual financial advisory
payable quarterly in advance to the Equity Sponsors (with the first suc
remainder of the then current quarter, paid at the closing of the merger
provided by each of the Equity Sponsors to us. In addition, we pay the
expenses related to KAR Auction Services, pursuant to the terms conta
advisory agreements. In connection with our initial public offering, we
letter agreement with each of our Equity Sponsors (or their affiliates) p
parties agreed to terminate the ongoing financial advisory fees describ
terms of each such termination agreement, we paid the Equity Sponsor
aggregate fee of $10.5 million at the consummation of the initial publi
2009. We paid the Equity Sponsors approximately $0.1 million and $0
expenses for the years ended December 31, 2011 and 2010, respective
related to the financial advisory fee and travel expenses for the year en

Additionally, the financial advisory agreements provide that KAR
indemnify the Equity Sponsors and their respective officers, directors,
agents and control persons (as such term is used in the Securities Act a
regulations thereunder) against any and all claims, losses and expenses
connection with the merger and the transactions contemplated by the m
(including the financing of the merger).

Towing and Transportation Services

In the ordinary course of business, we have received towing, tran
services from companies which are controlled by our chairman. Amou
were approximately $0.1 million, $1.1 million and $1.6 million for the
2011, 2010 and 2009, respectively. The transportation services were p
with those of other providers of similar services.

Note 20 Segment Information

ASC 280, *Segment Reporting*, requires reporting of segment info
with the manner in which the chief operating decision maker operates
Our operations are grouped into three operating segments: ADESA Au
which also serve as our reportable business segments. None of our ope
aggregated in our segment reporting. These reportable business segme
and have fundamental differences in their operations.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 20 Segment Information (Continued)

ADESA Auctions encompasses all physical and online wholesale
America (U.S., Canada and Mexico). ADESA Auctions relates to used
including auction services, remarketing, or make ready services and al
synergistic elements along the auto remarketing chain.

IAA encompasses all salvage auctions throughout North America
provides insurance companies and other vehicle suppliers cost-effectiv
solutions, including selling total loss and recovered theft vehicles. As s
loss vehicle remarketing, including auction services, remarketing, or m
interrelated, synergistic elements along the total loss vehicle remarketi

AFC is primarily engaged in the business of providing short-term
financing to independent, used vehicle dealers. AFC also includes othe
that AFC may enter into, focusing on providing independent used vehi
other related services and products. AFC conducts business primarily a
vehicle auctions in the U.S. and Canada.

The holding company is maintained separately from the three rep
includes expenses associated with the corporate office, such as salaries
for the corporate management team, certain human resources, informa
accounting costs, and certain insurance, treasury, legal and risk manag
company interest expense includes the interest expense incurred on the
Intercompany charges relate primarily to interest on intercompany deb
information technology costs allocated by the holding company.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 20 Segment Information (Continued)

Financial information regarding our reportable segments is set fo
ended December 31, 2011 *(in millions)*:

	ADESA Auctions	IAA	AFC	H Co
Operating revenues	$ 1,017.4	$ 700.1	$ 168.8	$
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	582.3	415.3	37.6	
Selling, general and administrative	219.6	82.3	22.1	
Depreciation and amortization	88.1	65.8	24.7	
Total operating expenses	890.0	563.4	84.4	
Operating profit (loss)	127.4	136.7	84.4	
Interest expense	1.0	2.1	12.0	
Other (income) expense, net	0.3	(5.3)		
Loss on extinguishment of debt				
Intercompany expense (income)	52.4	38.3	(14.4)	
Income (loss) before income taxes	73.7	101.6	86.8	
Income taxes	17.9	36.1	29.6	
Net income (loss)	$ 55.8	$ 65.5	$ 57.2	$
Assets	$ 2,281.1	$ 1,177.7	$ 1,282.4	$
Capital expenditures	$ 45.5	$ 34.6	$ 5.7	$

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 20 Segment Information (Continued)

Financial information regarding our reportable segments is set fo
ended December 31, 2010 *(in millions)*:

	ADESA Auctions	IAA	AFC	H Co
Operating revenues	$ 1,075.9	$ 610.4	$ 136.3*	$
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	611.2	362.0	34.1*	
Selling, general and administrative	211.9	78.9	20.6*	
Depreciation and amortization	86.9	58.9	25.0	
Total operating expenses	910.0	499.8	79.7	
Operating profit (loss)	165.9	110.6	56.6	
Interest expense	0.9	2.3	7.2	
Other (income) expense, net	(1.0)	(1.3)	1.6	
Loss on extinguishment of debt				
Intercompany expense (income)	42.3	38.2	(11.7)	
Income (loss) before income taxes	123.7	71.4	59.5	
Income taxes	43.6	26.7	21.1	
Net income (loss)	$ 80.1	$ 44.7	$ 38.4	$
Assets	$ 2,036.4	$ 1,188.9	$ 1,171.7	$
Capital expenditures	$ 44.3	$ 34.3	$ 0.3	$

*

AFC's revenues, cost of services and selling general and adm
been revised in the above table. For a description of the char
Revenue" section in Note 2.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 20 Segment Information (Continued)

Financial information regarding our reportable segments is set for
ended December 31, 2009 *(in millions)*:

	ADESA Auctions	IAA	AFC	H Co
Operating revenues	$ 1,088.5	$ 553.1	$ 93.9*	$
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	615.4	352.1	34.0*	
Selling, general and administrative	207.1	65.5	13.3*	
Depreciation and amortization	88.4	58.3	24.7	
Total operating expenses	910.9	475.9	72.0	
Operating profit (loss)	177.6	77.2	21.9	
Interest expense	0.7	1.4		
Other (income) expense, net	(2.4)	(2.4)	1.2	
Intercompany expense (income)	28.9	36.2	(6.8)	
Income (loss) before income taxes	150.4	42.0	27.5	
Income taxes	56.0	16.2	8.4	
Net income (loss)	$ 94.4	$ 25.8	$ 19.1	$
Assets	$ 1,989.6	$ 1,170.7	$ 654.1	$
Capital expenditures	$ 43.4	$ 20.6	$ 1.6	$

*

AFC's revenues, cost of services and selling general and adm
been revised in the above table. For a description of the char
Revenue" section in Note 2.

Geographic Information

Most of our operations outside the U.S. are in Canada. Informatio
areas of our operations is set forth below *(in millions)* :

	Year Ended December 31,		
	2011	2010	2009
Operating revenues			
U.S.	**$ 1,563.9**	$ 1,500.3	$ 1,448.5
Foreign	**322.4**	322.3	287.0
	$ 1,886.3	$ 1,822.6	$ 1,735.5

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 20 Segment Information (Continued)

	December 31,	
	2011	2010
Long-lived assets		
U.S.	**$ 3,158.4**	$ 3,008.3
Foreign	**247.5**	262.0
	$ 3,405.9	$ 3,270.3

No single customer accounted for more than ten percent of our to

Note 21 Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indica
be expected for the year.

2011 Quarter Ended	March 31	June 30
Operating revenues*	$ 484.7	$ 472.7
Operating expenses		
Cost of services (exclusive of depreciation and amortization)*	264.5	254.4
Selling, general, and administrative expenses*	102.7	99.4
Depreciation and amortization	44.1	43.6
Total operating expenses	411.3	397.4
Operating profit	73.4	75.3
Interest expense	33.2	49.7
Other (income) expense, net	(0.6)	(6.7
Loss on extinguishment of debt		53.5
Income (loss) before income taxes	40.8	(21.2
Income taxes	1.0	(6.9
Net income (loss)	$ 39.8	$ (14.3
Basic net income (loss) per share of common stock	$ 0.29	$ (0.11
Diluted net income (loss) per share of common stock	$ 0.29	$ (0.11

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 21 Quarterly Financial Data (Unaudited) (Continued)

2010 Quarter Ended	March 31	June 30
Operating revenues*	$ 460.3	$ 471.9
Operating expenses		
Cost of services (exclusive of depreciation and amortization)*	257.4	253.1
Selling, general, and administrative expenses*	95.5	91.3
Depreciation and amortization	43.3	41.8
Total operating expenses	396.2	386.2
Operating profit	64.1	85.7
Interest expense	34.9	35.9
Other (income) expense, net	(2.9)	1.3
Loss on extinguishment of debt	25.3	
Income before income taxes	6.8	48.5
Income taxes	(1.3)	19.9
Net income	$ 8.1	$ 28.6
Basic and diluted net income per share of common stock	$ 0.06	$ 0.21

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* Revenues, cost of services and selling general and administr adjusted in the above table. For a description of the changes, *Revenue*" section in Note 2. Revenue, cost of services and se administrative expenses increased by the following amounts periods noted:

2011 Quarter Ended	March 31	June 30
Operating revenues	$ 2.0	$ 2.
Cost of services (exclusive of depreciation and amortization)	1.4	1.
Selling, general, and administrative expenses	0.6	0.
2010 Quarter Ended		
Operating revenues	$ 1.9	$ 1.
Cost of services (exclusive of depreciation and amortization)	1.4	1.
Selling, general, and administrative expenses	0.5	0.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information

Our obligations related to the floating rate senior notes are guaran
unconditional, joint and several basis by certain direct and indirect pre
subsidiaries (the "Guarantor Subsidiaries"). AFC Funding Corporation
subsidiaries are not guarantors (the "Non-Guarantor Subsidiaries"). Th
information sets forth, on a condensed consolidating basis, the balance
income and statements of cash flows for the periods indicated for KAR
Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the elimin
Auction Services on a consolidated basis.

The condensed consolidating financial statements are provided as
separate financial statements of the Guarantor Subsidiaries. The conde
financial statements should be read in conjunction with our consolidat
notes thereto.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Inc
For the Year Ended December 31, 2011
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Operating revenues	$	$ 1,423.8	$ 462.5
Operating expenses			
Cost of services (exclusive of depreciation and amortization)		876.0	159.2
Selling, general and administrative	4.3	330.1	55.0
Depreciation and amortization		155.3	24.5
Total operating expenses	4.3	1,361.4	238.7
Operating profit (loss)	(4.3)	62.4	223.8
Interest expense	69.5	59.4	14.2
Other (income) expense, net		(3.0)	(1.7)
Loss on extinguishment of debt	53.5		
Intercompany expense (income)		(17.1)	17.1
Income (loss) before income taxes	(127.3)	23.1	194.2
Income taxes	(48.8)	(1.5)	68.1
Net income (loss)	$ (78.5)	$ 24.6	$ 126.1

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Inc
For the Year Ended December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Operating revenues*	$	$ 1,389.8	$ 432.8
Operating expenses			
Cost of services (exclusive of depreciation and amortization)*		847.0	160.3
Selling, general and administrative*	5.1	321.9	48.2
Depreciation and amortization		147.7	23.6
Total operating expenses	5.1	1,316.6	232.1
Operating profit (loss)	(5.1)	73.2	200.7
Interest expense	70.7	58.6	12.1
Other (income) expense, net		(1.2)	(0.9)
Loss on extinguishment of debt	32.7		
Intercompany expense (income)		(17.9)	17.9
Income (loss) before income taxes	(108.5)	33.7	171.6
Income taxes	(44.1)	10.5	60.8
Net income (loss)	$ (64.4)	$ 23.2	$ 110.8

* Revenues, cost of services and selling general and administr adjusted in the above table. For a description of the changes, *Revenue*" section in Note 2.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Inc
For the Year Ended December 31, 2009
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Operating revenues*	$	$ 1,384.6	$ 350.9
Operating expenses			
Cost of services (exclusive of depreciation and amortization)*		852.3	149.2
Selling, general and administrative*	26.5	294.0	45.8
Depreciation and amortization		149.9	22.5
Total operating expenses	26.5	1,296.2	217.5
Operating profit (loss)	(26.5)	88.4	133.4
Interest expense	113.1	55.0	4.5
Other (income) expense, net		(10.5)	(1.1)
Intercompany expense (income)		(16.0)	16.0
Income (loss) before income taxes	(139.6)	59.9	114.0
Income taxes	(49.6)	22.3	38.4
Net income (loss)	$ (90.0)	$ 37.6	$ 75.6

* Revenues, cost of services and selling general and administr adjusted in the above table. For a description of the changes, *Revenue*" section in Note 2.

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents	$	$ 68.3	$ 29.1
Restricted cash			8.2
Trade receivables, net of allowances		256.8	59.4
Finance receivables, net of allowances		5.5	127.2
Finance receivables securitized, net of allowances			741.5
Deferred income tax assets		37.5	
Other current assets	1.5	49.9	7.1
Total current assets	1.5	418.0	972.5
Other assets			
Investments in and advances to affiliates, net	2,475.5	285.5	130.8
Goodwill		1,674.8	4.7
Customer relationships, net of accumulated amortization		588.6	105.4
Other intangible assets, net of accumulated amortization		301.4	4.5
Unamortized debt issuance costs	23.5		5.1
Other assets	1.0	9.6	0.6
Total other assets	2,500.0	2,859.9	251.1
Property and equipment, net of accumulated depreciation		555.4	131.3
Total assets	$ 2,501.5	$ 3,833.3	$ 1,354.9

KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable	$	$ 351.7	$ 34.9
Accrued employee benefits and compensation expenses		52.8	4.9
Accrued interest	2.1		0.2
Other accrued expenses	0.4	61.5	9.8
Income taxes payable		0.5	
Obligations collateralized by finance receivables			610.3
Current maturities of long-term debt	85.9		
Total current liabilities	88.4	466.5	660.1
Non-current liabilities			
Investments by and advances from affiliates, net	119.9		
Long-term debt	995.4	821.5	
Deferred income tax liabilities		300.2	23.7
Other liabilities		82.4	16.5
Total non-current liabilities	1,115.3	1,204.1	40.2
Commitments and contingencies			
Stockholders' equity			
Total stockholders' equity	1,297.8	2,162.7	654.6
Total liabilities and stockholders' equity	$ 2,501.5	$ 3,833.3	$ 1,354.9

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Balance Shee
As of December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents	$	$ 99.3	$ 19.8
Restricted cash			8.6
Trade receivables, net of allowances		233.6	51.6
Finance receivables, net of allowances		7.6	118.6
Finance receivables securitized, net of allowances			635.7
Deferred income tax assets	1.5	39.3	
Other current assets	1.2	47.5	3.7
Total current assets	2.7	427.3	838.0
Other assets			
Investments in and advances to affiliates, net	2,472.6	292.2	82.3
Goodwill		1,550.1	4.0
Customer relationships, net of accumulated amortization		605.2	107.4
Other intangible assets, net of accumulated amortization		261.6	8.2
Unamortized debt issuance costs	41.4		
Other assets		10.9	1.0
Total other assets	2,514.0	2,720.0	202.9
Property and equipment, net of accumulated depreciation		539.1	141.4
Total assets	$ 2,516.7	$ 3,686.4	$ 1,182.3

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Balance Sheet (Cont
As of December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable	$	$ 283.3	$ 17.7
Accrued employee benefits and compensation expenses		52.5	4.7
Accrued interest	9.9		0.2
Other accrued expenses	3.2	76.4	9.2
Income taxes payable		0.9	2.0
Obligations collateralized by finance receivables			520.1
Total current liabilities	13.1	413.1	553.9
Non-current liabilities			
Investments by and advances from affiliates, net	75.2		
Long-term debt	1,054.2	821.5	
Deferred income tax liabilities	(4.9)	304.2	27.0
Other liabilities	16.6	88.4	6.6
Total non-current liabilities	1,141.1	1,214.1	33.6
Commitments and contingencies			
Stockholders' equity			
Total stockholders' equity	1,362.5	2,059.2	594.8
Total liabilities and stockholders' equity	$ 2,516.7	$ 3,686.4	$ 1,182.3

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash
For the Year Ended December 31, 2011
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash (used by) provided by operating activities	$ 12.8	$ 251.9	$ 41.1
Investing activities			
Net decrease (increase) in finance receivables held for investment		2.2	(122.3)
Acquisition of businesses, net of cash acquired		(214.6)	
Purchases of property, equipment and computer software		(83.6)	(2.2)
Proceeds from the sale of property, equipment and computer software		0.3	
Decrease (increase) in restricted cash			0.4
Net cash (used by) provided by investing activities		(295.7)	(124.1)
Financing activities			
Net (decrease) increase in book overdrafts		28.1	4.4
Net (decrease) increase in borrowings from lines of credit	68.9		
Net increase in obligations collateralized by finance receivables			90.2
Proceeds from long-term debt	1,691.5		
Payments for debt issuance costs/amendments	(24.3)	(5.2)	(1.1)
Payments on long-term debt	(1,153.1)		
Payments for early extinguishment of debt	(600.7)		
Payments on capital leases		(8.0)	(0.5)
		(3.9)	

Payments of contingent consideration and deferred acquisition costs			
Initial net investment for interest rate caps	(1.1)		
Issuance of common stock under stock plans	6.0		
Excess tax benefits from stock- based compensation		1.8	
Net cash (used by) provided by financing activities	(12.8)	12.8	93.0
Effect of exchange rate changes on cash			(0.7)
Net increase (decrease) in cash and cash equivalents		(31.0)	9.3
Cash and cash equivalents at beginning of period		99.3	19.8
Cash and cash equivalents at end of period	$	$ 68.3	$ 29.1

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash
For the Year Ended December 31, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash (used by) provided by operating activities	$ 417.1	$ (105.5)	$ 156.0
Investing activities			
Net decrease (increase) in finance receivables held for investment		5.6	(674.6)
Acquisition of businesses, net of cash acquired		(48.7)	
Purchases of property, equipment and computer software		(75.6)	(3.3)
Proceeds from the sale of property, equipment and computer software		2.0	
Decrease (increase) in restricted cash		3.7	(3.0)
Net cash (used by) provided by investing activities		(113.0)	(680.9)
Financing activities			
Net (decrease) increase in book overdrafts		(17.1)	0.4
Net increase in obligations collateralized by finance receivables			520.1
Payments for debt issuance costs/amendments	(1.3)		
Payments on long-term debt	(103.3)		
Payments for early extinguishment of	(317.4)		

debt				
Payments on capital leases		(4.6)	(0.4)	
Payments of contingent consideration		(2.0)		
Issuance of common stock under stock plans	4.9			
Excess tax benefits from stock- based compensation		1.7		
Net cash (used by) provided by financing activities	(417.1)	(22.0)	520.1	
Effect of exchange rate changes on cash			0.5	
Net increase (decrease) in cash and cash equivalents		(240.5)	(4.3)	
Cash and cash equivalents at beginning of period		339.8	24.1	
Cash and cash equivalents at end of period	$	$ 99.3	$ 19.8	$

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KAR Auction Services, Inc.

Notes to Consolidated Financial Statements (Co

December 31, 2011, 2010 and 2009

Note 22 Supplemental Guarantor Information (Continued)

Condensed Consolidating Statement of Cash
For the Year Ended December 31, 2009
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash (used by) provided by operating activities	$ (53.3)	$ 286.4	$ 17.7
Investing activities			
Net decrease (increase) in finance receivables held for investment		8.0	(18.6)
Acquisition of businesses, net of cash acquired		(5.5)	
Purchases of property, equipment and computer software		(62.6)	(3.0)
Proceeds from the sale of property and equipment		7.9	
(Increase) decrease in restricted cash		(0.1)	6.7
Net cash (used by) provided by investing activities		(52.3)	(14.9)
Financing activities			
Net increase (decrease) in book overdrafts		(19.7)	(3.3)
Net increase (decrease) in borrowings from lines of credit			(4.5)
Payments for debt issuance costs/amendments	(5.7)		
Payments on long-term debt	(250.0)		
Payments on capital leases		(2.5)	(0.5)
		(1.6)	

Payments of contingent consideration				
Initial net investment for interest rate cap	(1.3)			
Net proceeds from issuance of common stock	310.3			
Net cash provided by (used by) financing activities	53.3	(23.8)	(8.3)	
Effect of exchange rate changes on cash			0.7	
Net increase (decrease) in cash and cash equivalents		210.3	(4.8)	
Cash and cash equivalents at beginning of period		129.5	28.9	
Cash and cash equivalents at end of period	$	$ 339.8	$ 24.1	$

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Item 9. Changes in and Disagreements with Accountants on Ac
Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on For
evaluation under the supervision and with the participation of our man
Chief Executive Officer and Chief Financial Officer, of the effectivene
operation of our disclosure controls and procedures as defined in Exch
and 15d-15(e). Based upon that evaluation, the Chief Executive Office
Officer concluded that our disclosure controls and procedures were eff

Internal Control over Financial Reporting

Management's report on our internal control over financial report
in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the rela
our independent registered public accounting firm, are included in Iten
and Supplementary Data under the headings Management's Report on
Financial Reporting and Report of Independent Registered Public Acc
and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial re
ended December 31, 2011, that has materially affected, or is reasonabl
affect, our internal control over financial reporting.

Item 9B. Other Information

Employment Agreement with James P. Hallett

On February 27, 2012, KAR Auction Services, Inc. (the "Compar
an employment agreement with James P. Hallett (the "Employment Ag
Chief Executive Officer. The employment period will continue until te
terms of the Employment Agreement.

Pursuant to the Employment Agreement, Mr. Hallett is entitled to
$816,000, and will be eligible to participate in The KAR Auction Serv
Plan and any other incentive programs (including equity-based incenti
executives of the Company. Mr. Hallett will also be entitled to an auto
least $25,000 a year and will also receive standard benefits available to
Company.

In the event of Mr. Hallett's termination of employment by the Co
by Mr. Hallett for "good reason," (each as defined in the Employment
will be entitled to receive, in addition to accrued benefits, cash severar
sum of his (i) base salary and (ii) target bonus for the year in which ter
for this purpose, will not be less than 100% of Mr. Hallett's base salary
Mr. Hallett will also be entitled to a pro-rata bonus and payment of pre
maintaining his insurance coverage under COBRA for 18 months (sub
subsequent employment). In addition, Mr. Hallett will be able to retain
and Value Units. If any excise tax would be due under Section 4999 of

payments to Mr. Hallett, he will be entitled to a gross-up payment for t
tax; provided, however, that if a reduction in the payments to

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Mr. Hallett of less 10% of the original amount of such payments woul
the payments shall be so reduced.

In the event that Mr. Hallett retires and provided such retirement
12 months prior to his termination date and takes effect no earlier than
effective date of the Employment Agreement, Mr. Hallett will be entit
will be able to retain all of his Operating Units and Value Units.

Mr. Hallett will be subject to post-termination non-competition a
covenants and standard confidentiality provisions. The non-competitio
provisions will expire 24 months following termination and shall not b
termination due to retirement.

A copy of the Employment Agreement is attached hereto as Exhi
incorporated herein by reference. The foregoing description is qualifie
reference to the full text of such exhibit.

PART III

Item 10. Directors, Executive Officers and Corporate Governa

Information relating to our directors and nominees will be includ
Statement for our 2012 Annual Meeting of Stockholders and such info
incorporated by reference herein. Our executive officers as of Februar

Brian T. Clingen, 52, Chairman of the Board. Mr. Clingen h
the Board since April 2007. Mr. Clingen also served as our Chief Exe
April 2007 and September 2009. Mr. Clingen has served as a managin
Management since 1998. Established in 1998, BP Capital Managemen
investments principally in the service and finance sectors. Prior to fou
Management, Mr. Clingen was Chief Financial Officer of Universal O
1996. Kelso invested in Universal Outdoor in 1993.

James P. Hallett, 58, Chief Executive Officer and Director.
Chief Executive Officer since September 2009. Mr. Hallett was Presid
Officer of ADESA between April 2007 and September 2009. Mr. Hall
following positions between August 1996 and May 2005: Executive V
ADESA, Inc. from May 2004 to May 2005; President of ADESA Cor
2004 to May 2005; President of ADESA Corporation between August
and again between January 2003 and March 2004; Chief Executive Of
Corporation from August 1996 to July 2003; ADESA Corporation's C
to July 2003; Chairman, President and Chief Executive Officer of AL
Services, Inc. from January 2001 to January 2003 and Executive Vice
1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafte
Columbus Fair Auto Auction.

Thomas J. Caruso, 52, President and Chief Executive Officer
has been President and Chief Executive Officer of ADESA since Sept
was Chief Operating Officer of ADESA from May 2008 to September
served as Executive Vice President of ADESA from April 2007 to Ma
President of ADESA from January 2000 to April 2007. From Novemb
Mr. Caruso served as General Manager of ADESA Boston.

Thomas C. O'Brien, 58, Chief Executive Officer of IAA and D
became Chief Executive Officer of IAA in November 2000. Mr. O'Bri
of IAA from November 2000 to June 2011. Prior to joining IAA, Mr.
of Thomas O'Brien & Associates from 1999 to 2000, Executive Vice

Corporation from 1998 to 1999, Executive Vice President of Vistar, In
President of U.S.A. Glass, Inc. from 1992 to 1996. Mr. O'Brien is also
Logic Corporation.

Donald S. Gottwald, 45, President and Chief Executive Office
has been President and Chief Executive Officer of AFC since January
Mr. Gottwald served in the role of Executive Vice President of Dealer
Finance from December 2005 to October 2008. Prior to working at HS
Mr. Gottwald served in several roles of increased responsibility with C
from June 1993 to December 2005, including Managing Director of Sa
Corp. and Managing Director of American Suzuki Financial Services.
active in the American Financial Services Association and has served
of directors.

Peter J. Kelly, 43, President and Chief Executive Officer of O
has been President and Chief Executive Officer of OPENLANE since
Mr. Kelly was President and Chief Financial Officer of OPENLANE f
February 2011. Prior to that, Mr. Kelly was Chief Financial Officer of
2008 to February 2010. Mr. Kelly was a co-founder of OPENLANE in
number of executive roles at OPENLANE from 1999 to 2008.

Eric M. Loughmiller, 52, Executive Vice President and Chief
Officer. Mr. Loughmiller has been Executive Vice President and Ch
April 2007. Previously, from 2001 to 2006, Mr. Loughmiller was the
Financial Officer of ThoughtWorks, Inc., an information technology c
that, Mr. Loughmiller served as Executive Vice President and Chief Fi
Speh, Inc. from 1996 to 1998 until May & Speh was acquired by Acxi
Mr. Loughmiller was the finance leader of the Outsourcing Division o
1998 to 2000. Prior to joining May & Speh, Mr. Loughmiller was an a
PricewaterhouseCoopers LLP, an independent registered public accou
Mr. Loughmiller is a certified public accountant.

Rebecca C. Polak, 41, Executive Vice President, General Cou
Secretary. Ms. Polak has been Executive Vice President, General C
April 2007. Ms. Polak previously served as the Assistant General Cou
Secretary of ADESA from February 2005 to April 2007. Prior to joinin
practiced corporate and securities law with Krieg DeVault in Indianap
with Haynes and Boone in Dallas from 1995 to 1999.

Benjamin Skuy, 49, Executive Vice President of International
Initiatives. Mr. Skuy has been Executive Vice President of Internati
Initiatives since September 2009. Mr. Skuy previously served in the fo
July 1999 and September 2009: Executive Vice President of Internatio
Director of ADESA Canada from January 2008 to September 2009; M
Operating Officer of ADESA Canada from July 2006 to January 2008
of ADESA Canada from January 2002 to July 2006; and Chief Financ
Canada from July 1999 to January 2002. Prior to joining ADESA, Mr.
Vice President at Manulife Financial from June 1998 to July 1999. Fro
1998 he served as Senior Manager at The Bank of Nova Scotia.

David Vignes, 49, Executive Vice President of Enterprise Opt
has been Executive Vice President of Enterprise Optimization since Se
Mr. Vignes served as Senior Vice President of Operations and Strategi
from July 2007 to August 2009. Prior to joining ADESA, Mr. Vignes
President at Steiner + Associates, a real estate development company,
2007. From 1991 to

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2004, Mr. Vignes held several executive positions in finance and opera
Corporation companies, such as Disneyland Paris, Walt Disney World
cruise line.

**Warren W. Byrd, 49, Executive Vice President of Corporate I
Estate.** Mr. Byrd has been Executive Vice President of Corporate De
since June 2010. Mr. Byrd previously served as the Executive Vice Pr
Development of ADESA from April 2007 to June 2010. From April 20
Mr. Byrd was the Chief Operating Officer of ServNet Auction Group,
over 20 independent auto auctions in the U.S. Mr. Byrd previously ser
positions between September 1994 and November 2003: President of A
auction subsidiary of ADESA, between February 2002 and November
President and Chief Information Officer of ADESA between May 200
President of Corporate Development of ADESA between January 199
Counsel of ADESA between August 1996 and January 1999; and Lega
between September 1994 and August 1996. Prior to joining ADESA, M
McHale, Cook and Welch in Indianapolis from May 1989 to Septembe

Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this item is incorporated by referenc
Definitive Proxy Statement for our 2012 Annual Meeting of Stockhold
SEC as set forth under the caption "Documents Incorporated by Refere

Code of Business Conduct and Ethics

We have adopted the Code of Business Conduct and Ethics that a
employees, officers and directors, including those officers responsible
addition, we have adopted the Code of Ethics for Principal Executive a
Officers that applies to the Company's principal executive officer, prin
accounting officer and such other persons who are designated by our b
codes are available on our Web site at www.karauctionservices.com an
stockholder who requests it. Information on, or accessible through, our
Form 10-K. We expect that any amendments to these codes, or any wa
will be disclosed on our website.

Controlled Company Exception

KAR LLC controls a majority of the voting power of our outstand
Equity Sponsors and management indirectly own through their investm
approximately 78% of our common stock. As a result, we are a "contro
meaning of the NYSE corporate governance standards. Under the NYS
which more than 50% of the voting power is held by an individual, gro
"controlled company" and may elect not to comply with certain NYSE
standards, including:

- the requirement that a majority of the Board of Dir
independent directors;
- the requirement that we have a nominating/corpora
that is composed entirely of independent directors
addressing the committee's purpose and responsibi
- the requirement that we have a compensation com
entirely of independent directors with a written cha

committee's purpose and responsibilities; and

the requirement for an annual performance evaluat
nominating/corporate governance and compensatio

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Item 11. Executive Compensation

The information required by this Item 11 is incorporated by refer
Definitive Proxy Statement for our 2012 Annual Meeting of Stockhol
SEC as set forth under the caption "Documents Incorporated by Refer

Item 12. Security Ownership of Certain Beneficial Owners and Related Stockholder Matters

The information required by Item 403 of Regulation S-K will be
Proxy Statement for our 2012 Annual Meeting and such information w
reference herein.

Equity Compensation Plan Information

The following table sets forth the aggregate information of our eq
effect as of December 31, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)
Equity compensation plans approved by security holder(s)	9,560,979	$ 11.08
Equity compensation plans not approved by security holders		
Total	9,560,979	$ 11.08

(1) Includes (a) service and exit options issued under the KAR A
Omnibus Stock and Incentive Plan, (b) service and exit optio
Auction Services, Inc. Stock Incentive Plan and (c) service a
from the Axle Holdings, Inc. Stock Incentive Plan at the tim
April 20, 2007.

(2) Awards issued post-merger by KAR Auction Services, Inc. h
ranging from $10.00 to $18.80. Axle Holdings, Inc. options
the merger date have exercise prices ranging from $3.14 to $

Item 13. Certain Relationships and Related Transactions, and I

The information required by this Item 13 is incorporated by refer
Definitive Proxy Statement for our 2012 Annual Meeting of Stockhol
SEC as set forth under the caption "Documents Incorporated by Refer

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 is incorporated by refer
Definitive Proxy Statement for our 2012 Annual Meeting of Stockhol
SEC as set forth under the caption "Documents Incorporated by Refer

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PART IV

Item 15. Exhibits, Financial Statement Schedules

a)
The following documents have been filed as part of this repo
incorporated by reference:

1)
Financial Statements the consolidated financial st
Services, Inc. and its consolidated subsidiaries are
under Item 8.

2)
Financial Statement Schedules all schedules have
matter or conditions are not present or the informa
therein is included in the consolidated financial sta
thereto.

3)
Exhibits the exhibit list in the Exhibit Index is inc
reference as the list of exhibits required as part of

In reviewing the agreements included as exhibits t
remember they are included to provide you with in
terms and are not intended to provide any other fac
information about KAR Auction Services, ADESA
the agreements.

The agreements included or incorporated by refere
Annual Report on Form 10-K contain representati
of the parties to the applicable agreement. These r
warranties were made solely for the benefit of the
applicable agreement and (i) were not intended to
statements of fact, but rather as a way of allocating
parties if those statements prove to be inaccurate;
qualified in such agreement by disclosures that we
in connection with the negotiation of the applicabl
apply contract standards of "materiality" that are d
under the applicable securities laws; and (iv) were
the applicable agreement or such other date or dat
the agreement.

The Company acknowledges that, notwithstanding
foregoing cautionary statements, it is responsible f
additional specific disclosures of material informa
contractual provisions are required to make the sta
Report not misleading. Additional information abo
may be found elsewhere in this Annual Report on
Auction Services' other public filings, which are a
through the SEC's website at http://www.sec.gov.
"Business Available Information."

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securit
the Registrant has duly caused this report to be signed on its behalf by
duly authorized.

KAR A

By:

Pursuant to the requirements of the Securities Exchange Act of 19
signed below by the following persons on behalf of the Registrant and
dates indicated.

Signature	Title
/s/ JAMES P. HALLETT James P. Hallett	Chief Executive Officer and Director (Principal Executive Officer)
/s/ ERIC M. LOUGHMILLER Eric M. Loughmiller	Chief Financial Officer (Princip Financial and Accounting Offic
/s/ DAVID J. AMENT David J. Ament	Director
/s/ KELLY J. BARLOW Kelly J. Barlow	Director
/s/ THOMAS J. CARELLA Thomas J. Carella	Director
/s/ BRIAN T. CLINGEN Brian T. Clingen	Chairman of the Board and Director
/s/ ROBERT M. FINLAYSON Robert M. Finlayson	Director

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Signature	Title
/s/ PETER R. FORMANEK Peter R. Formanek	Director
/s/ MICHAEL B. GOLDBERG Michael B. Goldberg	Director
/s/ SANJEEV MEHRA Sanjeev Mehra	Director
/s/ CHURCH M. MOORE Church M. Moore	Director
/s/ THOMAS C. O'BRIEN Thomas C. O'Brien	Director
/s/ GREGORY P. SPIVY Gregory P. Spivy	Director
/s/ JONATHAN P. WARD Jonathan P. Ward	Director

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EXHIBIT INDEX

Exhibit No.	Exhibit Description	Form	Incorporated l File No.
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	S-1/A	333-161907
3.2	Amended and Restated By-Laws of KAR Auction Services, Inc.	S-1/A	333-161907
4.1a	Indenture, dated April 20, 2007 (the "Floating Senior Indenture"), among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), the guarantors from time to time parties thereto and Wells Fargo Bank, National Association, as Trustee, for $150,000,000 Floating Rate Senior Notes due 2014	S-4	333-148847
4.1b	Supplemental Indenture, dated December 26, 2007, to the Floating Senior Indenture	S-4	333-148847
4.1c	Second Supplemental Indenture, dated January 22, 2008, to the Floating Senior Indenture	S-4	333-148847
4.1d	Third Supplemental Indenture, dated May 6, 2008, to the Floating Senior Indenture	S-1/A	333-158666
4.1e	Fourth Supplemental Indenture, dated September 30, 2008, to the Floating Senior Indenture	S-1/A	333-158666
4.1f	Fifth Supplemental Indenture, dated March 26, 2009, to the Floating Senior Indenture	S-1/A	333-158666
4.1g	Sixth Supplemental Indenture, dated February 23, 2010, to the Floating Senior Indenture	S-1	333-166047
4.1h	Seventh Supplemental Indenture, dated July 27, 2010, to the Floating Senior Indenture	10-K	001-34568
4.1i	Eighth Supplemental Indenture, dated November 23, 2010, to the Floating Senior Indenture	10-K	001-34568

Exhibit No.	Exhibit Description	Form	Incorporated [cut off] File No.
4.2	Exchange and Registration Rights Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), the guarantors as named in the respective Floating Senior Indenture, the Fixed Senior Indenture and Senior Subordinated Indenture, and Goldman, Sachs & Co., Bear Stearns & Co. Inc., UBS Securities LLC, and Deutsche Bank Securities Inc., as representatives of the several initial purchasers, for $150,000,000 Floating Rate Senior Notes due 2014, $450,000,000 8 3/4% Senior Notes due 2014 and $425,000,000 10% Senior Subordinated Notes due 2015	S-4	333-148847
4.3	Registration Rights Agreement, dated April 20, 2007, among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), KAR Holdings II, LLC, certain employees of KAR Auction Services, Inc. or its subsidiaries and each of their respective Permitted Transferees	S-4	333-148847
4.4	Form of common stock certificate	S-1/A	333-161907
10.1	Credit Agreement, dated May 19, 2011, among KAR Auction Services, Inc., as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, as sole lead arranger, J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Barclays Capital and Deutsche Bank Securities Inc., as joint bookrunners, Goldman Sachs Lending Partners LLC, as syndication agent, and Barclays Bank PLC and Deutsche Bank Securities Inc., as co-documentation agents	10-Q	001-34568
10.2	Guarantee and Collateral Agreement, dated May 19, 2011, made by KAR Auction	10-Q	001-34568

Services, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, N.A., as administrative agent under the Credit Agreement

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

10.7*	Form of Rollover Stock Option Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-4	333-148847

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Exhibit No.	Exhibit Description	Form	Incorporated I File No.
10.8*	Form of Conversion Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-1/A	333-158666
10.9*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032
10.10*	Form of Nonqualified Stock Option Agreement of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) pursuant to the Stock Incentive Plan	S-4	333-148847
10.11a*	Employment Agreement, dated July 13, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and John Nordin	S-4	333-148847
10.11b*	Amendment to Employment Agreement, dated August 14, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and John Nordin	S-4	333-148847
10.11c*	Severance, Release and Waiver Agreement, dated February 18, 2011, between KAR Auction Services, Inc. and John Nordin	10-K	001-34568
10.12*	Letter Agreement dated December 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), Automotive Finance Corporation and Donald S. Gottwald	10-K	001-34568
10.13a*	Amended and Restated Employment Agreement, dated April 2, 2001, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	S-4	333-148847
10.13b*	Amendment to Amended and Restated Employment Agreement, dated December 1, 2008, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	10-K	333-148847
10.14*	Severance and Consulting		

	Agreement, dated August 15, 2011, between Peter Kelly and ADESA, Inc.
10.15*	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett

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Exhibit No.	Exhibit Description	Form	Incorporated File No.
10.16a^	Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated April 20, 2007	S-1/A	333-158666
10.16b	First Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 10, 2009		
10.16c	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 15, 2009		
10.16d	Third Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated February 27, 2012		
10.17a	Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated May 25, 2005	S-1/A	333-158666
10.17b	Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated November 2, 2006	S-4	333-148847
10.17c	First Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated April 20, 2007	S-4	333-148847
10.18*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program	10-K	333-148847
10.19a^	Amended and Restated Purchase and Sale Agreement, dated May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation	S-4	333-148847
10.19b	Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847

10.19c	Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847
10.19d^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847

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Exhibit No.	Exhibit Description	Form	Incorporated I File No.
10.19e	Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009		
10.19f	Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011		
10.20a^	Fourth Amended and Restated Receivables Purchase Agreement, dated April 26, 2011, among AFC Funding Corporation, Automotive Finance Corporation, Fairway Finance Company, LLC, Monterey Funding LLC, Salisbury Receivables Company LLC, Deutsche Bank AG, New York Branch, Barclays Bank PLC and BMO Capital Markets Corp.	10-Q/A	001-34568
10.20b	Amendment No. 1 to Fourth Amended and Restated Receivables Purchase Agreement, dated May 20, 2011		
10.20c^	Amendment No. 2 to Fourth Amended and Restated Receivables Purchase Agreement, dated October 12, 2011		
10.21^	Amended and Restated Receivables Purchase Agreement, dated May 24, 2011, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada	10-Q/A	001-34568
10.22a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847
10.22b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847
10.23a	Ground Lease, dated September 4, 2008, between	8-K	333-148847

ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)

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Exhibit No.	Exhibit Description	Form	Incorporated b File No.
10.23b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847
10.24a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and ADESA San Diego, LLC and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847
10.24b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847
10.25a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847
10.25b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847
10.26a	Ground Lease, dated September 4, 2008, between ADESA Washington, LLC and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847
10.26b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847
10.27a	Ground Lease, dated September 4, 2008, between ADESA Texas, Inc. and First Industrial, L.P. (Houston, Texas)	8-K	333-148847
10.27b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly	8-K	333-148847

	KAR Holdings, Inc.) and First Industrial, L.P. (Houston, Texas)		
10.28a	Ground Lease, dated September 4, 2008, between ADESA Florida, LLC and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847

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Exhibit No.	Exhibit Description	Form	Incorporated I File No.
10.28b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847
10.29a	Ground Sublease, dated October 3, 2008, between ADESA Atlanta, LLC and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847
10.29b	Guaranty of Lease, dated October 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847
10.30	Director Designation Agreement, dated December 10, 2009, among KAR Auction Services, Inc. (formerly known as KAR Holdings, Inc.) and KAR Holdings II, LLC	10-K	001-34568
10.31*	Form of KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	S-8	333-164032
10.32a*	Form of KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032
10.32b*	Amendment No. 1 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated March 31, 2010	10-Q	001-34568
10.32c*	Amendment No. 2 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated April 1, 2010	10-Q	001-34568
10.33*	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568
10.34*	Form of Director Restricted Share Agreement	10-Q	001-34568

10.35*	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907
10.36*	Form of Restricted Share Agreement	S-1/A	333-161907
10.37	Agreement and Plan of Merger dated as of August 15, 2011 by and among ADESA, Inc., Riley Acquisition, Inc., KAR Auction Services, Inc., OPENLANE, Inc. and Shareholder Representative Services LLC, as the securityholders representative	8-K	001-34568

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Exhibit No.	Exhibit Description	Form	Incorporated I File No.
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges		
21.1	Subsidiaries of KAR Auction Services, Inc.		
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm		
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
101.INS**	XBRL Instance Document		
101.SCH**	XBRL Taxonomy Extension Schema		
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase		
101.DEF**	XBRL Taxonomy Extension Definition Linkbase		
101.LAB**	XBRL Taxonomy Extension Label Linkbase		
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase		

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^ Portions of this exhibit have been redacted pursuant to a req
treatment filed separately with the Secretary of the Securitie
Commission pursuant to Rule 406 under the Securities Act c

*
Denotes management contract or compensation plan, contrac

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Pursuant to Rule 406T of Regulation S-T, the Interactive Da
hereto are deemed furnished and not filed or part of a registr
prospectus for purposes of Sections 11 or 12 of the Securitie
are deemed furnished and not filed for purposes of Section 1
Exchange Act of 1934, as amended, and otherwise are not su
those sections.