FINAL TRANSCRIPT

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**KARH - Q1 2009 KAR Holdings, Inc. Earnings Conference Call

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PRESENTATION

Operator

(audio in progress) -- Executive Vice President and Chief Financial Officer of KAR Holdings Incorporated. I would now like to turn the conference over to Mr. Loughmiller. Please go ahead, sir.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Good morning and welcome to the first-quarter KAR Holdings earnings call. Today, we will discuss the results of operations of KAR Holdings, Inc. At the conclusion of our commentary, we will take questions from participants. We will try to accommodate as many questions as possible at the end of our call, but we will have to end today's call at 11:45 AM Eastern time.

Before we begin today's discussion, I would like to remind you that this conference call may contain forward-looking statements. Such statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected, expressed or implied by such forward-looking statements.

Now, I will turn it over to Brian Clingen for some comments on our performance and other items of interest.

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Thank you, Eric.

I am pleased to report that our first-quarter performance came in quite strong and as we alluded to in the last conference call, we were seeing some encouraging signs at that point in time in the first quarter and they did in fact hold for the entire balance of the quarter. So while our numbers and our performance was down on a year-over-year basis, compared to a strong 2008, on a sequential-quarter basis, we saw some very significant improvement really in all of our business units in the first quarter of 2009.

Some brief comments on each of those units -- at ADESA, the whole car auction business was extremely strong in the quarter. We saw a very significant rebound in both conversion rates at our auctions, volumes at our auctions sold, as well as pricing of vehicles there, so again, very pleased with activity at the whole car auctions. We continue to be cautiously optimistic that the extreme slowdown that we saw in the fourth quarter is behind us and that we will continue to see a significant improvement in 2009 at the ADESA whole car level.

At IAA, again, we did see improvements from the fourth quarter. On a year-over-year basis, we continue to experience significant weakness on a comparative basis in overall proceeds, again probably the largest component of that being scrap metal prices, which are still off significantly on a year-over-year basis. But even in spite of the weakness in those proceeds, we continue to be pleased with the performance at IAA. In the environment that we've been in, they continue to do extremely well -- again, cautiously optimistic that we see some signs of firming and overall proceeds and expect the IAA business to continue to do quite well.

Then finally, our AFC finance business, which probably in 2008 was the most challenged of our business units, really saw a significant improvement in overall portfolio credit quality in the first quarter of 2009. So we did see a stabilization of a greatly reduced portfolio, but we now saw our credit statistics, credit quality, charge offs return to much stronger levels, really to what had been our historic levels there.

As we enter the second quarter, we are finding our AFC portfolio exhibiting probably credit statistics as strong as they have ever been. So we expect to see very significant improvements in what our level of charge offs are in this portfolio. Once again, we are focused more on growing that business with what we believe are going to be some significant opportunities, given some disruptions in a couple of the bankruptcies that we will talk about in a moment. So, on the AFC side also, I am very encouraged with where that business stands at the moment.

Then a final point on our existing businesses -- we continue to be very focused on building our cash balances. We saw significant build in our overall cash in the first quarter. We expect to see that continue. We remain very disciplined in our approach, both to capital expenditures and acquisitions, which in past years we've been quite active in. We don't expect to see that significant activity, and again very focused on the build of cash in the business and encouraged as to how that is going to coming along.

Then my final comments really pertain to the significant industry events given the bankruptcy at Chrysler and perhaps a soon to be bankruptcy at Gross margin. I can tell you that, on the Chrysler side, we managed that process very closely, and we are encouraged by where it ended up. By that, I mean we did not have any significant exposure to receivables from Chrysler. We continue to do significant business with both Chrysler and Chrysler Finance, which was not part of the bankruptcy but a significant customer that was impacted. So, we expect to continue to see significant business out of Chrysler; we are working closely with them. They have been a valued customer. We do expect to see opportunities on our finance side of the business with Chrysler Finance really shutting down their ongoing floorplanning business. That is moving over to GMAC, but it has given us some opportunities to take a look at some floorplanning deals for AFC that really we never would have seen in the past.

Then finally, the GM situation -- we, again, are very focused. Both GM and GMAC are significant customers. We are managing very closely our receivable exposure here, and we don't anticipate to have any significant losses in the event of a GM bankruptcy here in the near future. So those are some general comments on what's going on with those two significant events.

I am going to turn it back over to Eric to walk through some numbers.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Thank you, Brian. Yesterday, we reported our financial results for the first quarter of 2009. Net revenues for the first quarter of $442.5 million declined 4% from $462.1 million for the first quarter of 2008. As I will discuss in a few minutes, reductions in revenue at AFC account for substantially all of the decrease.

Adjusted EBITDA, as defined in the credit agreement, for the first quarter of 2009 totaled $97.3 million compared to $111.3 million for the first quarter of 2008. As many of you will recall, the first and second quarter of 2008 were particularly strong periods for each of our business segments.

Now, I would like to discuss the performance in each of our business segments for the first quarter. ADESA auctions reported revenue of $288.3 million for the first quarter of 2009, an increase of 1% over 2008 revenue of $285.1 million. The increase in revenue was the result of a 2% increase in the number of units sold, offset by a 1% reduction in revenue per vehicle sold. The reduction in revenue per vehicle sold is primarily attributable to a reduction in the value of the Canadian dollar as compared to the US dollar. The exchange rate impact was partially offset by some increases in ancillary services revenues, such as transportation.

Gross profit for the ADESA Auction segment in the first quarter of 2009 was 41.4% of revenue on as compared to 41.9% of revenue for the same period in 2008. Our gross profit in the first quarter reflects the strong conversion rates experienced during period. Although wholesale prices paid at auction increased throughout the first quarter, compared to the fourth quarter of 2008, values were still below first-quarter 2008 levels, which had some impact on our auction revenue per vehicle sold.

Selling, general and administrative expenses for the ADESA Auction segment of $52.7 million for the first quarter of 2009 decreased $5 million from the first quarter of 2008. Efforts to reduce marketing costs were effective in the first quarter, contributing to $3.2 million in reductions in SG&A. We also experienced lower bad debts in the first quarter of 2009 compared to the prior year. These decreases were partially offset by increased severance costs incurred during the quarter.

Revenues for the Insurance Auto Auctions Inc. segment of $138 million for the first quarter of 2009 were a 3% decline from $142.1 million for the prior year. IAAI had a 5% increase in the number of units sold, primarily due to acquisitions and greenfields. The increased volume was offset by reductions in revenue per vehicle sold directly related to the declining vehicle selling prices.

Gross profit for the first quarter of 33.5% of revenue compared to 35.9% in 2008, which reflects the lower revenue per vehicle sold attributable to reduced selling prices at auction, combined with higher costs related to greenfields in acquired locations as well as higher fuel and related costs in 2009, as compared to the first quarter of the prior year. These negative factors were partially offset by cost reductions in auction costs, supplies, travel and advertising.

SG&A costs for IAAI of $15 million for the first quarter of 2009 were 16% lower than the first-quarter 2008 levels. This decrease is attributable to lower integration costs as we have completed integration of all acquired locations prior to the first quarter of 2009. In addition, incentive compensation was lower in 2009 as compared to 2008, reflecting our performance as compared to plan for the period.

AFC net revenue of $16.2 million for the first quarter of 2009 was 54% lower than 2008 levels. This decrease reflects a 34% reduction in the number of loan transactions in 2009 as compared to 2008. In addition to the decrease in the number of loan transactions, AFC also experienced a reduction in floor plan fees and net interest income. Just over half of the decrease in net revenue is related to the reduction in the number of loan transactions, while the remainder reflects the reduction in fees and net interest income on the loans outstanding in the first quarter of 2009. The decline in gross profit in the first quarter of 2009, as compared to 2008, was consistent with the decline in net revenue for the period.

SG&A expenses of $2.7 million for the first quarter of 2009 compared to $5.4 million for the prior year, a decrease of 50%. This decreased SG&A expense reflects reduced compensation and related benefits costs due to headcount reductions implemented in the third quarter of 2009. In addition, AFC experienced lower travel and other corporate expenses in 2009 as compared to the prior year.

The performance of AFC reflects our efforts to reduce the size of our portfolio and improve the overall credit quality of our portfolio in the last half of 2008 and the first quarter of 2009. Although the size of our portfolio has been reduced significantly, we have accomplished our objectives of tightening credit standards and improving the overall quality of the portfolio.

At March 31, 2009, AFC had $437.6 million in total receivables managed, compared to $857.6 million at March 31, 2008. AFC had $243 million outstanding on its securitization facility at March 31, 2009. AFC is in compliance with all covenants of its securitization facility.

Now, let me speak to liquidity and capital resources. KAR Holdings generated over $44 million in cash from operations in the first quarter of 2009. Our available cash at March 31, 2009 was $113.1 million. This was an increase of $24.2 million from our available cash at December 31, 2008.

We continue to focus on building our cash balances during these uncertain economic times. We had no borrowings on our line of credit at March 31, 2009. Based upon our adjusted EBITDA and the senior secured leverage ratio required at March 31, 2009, had we borrowed on the revolver, $300 million was available to the Company from our revolving credit facility.

Capital expenditures of $12.1 million in the first quarter of 2009 were in line with our expectations. We continue to expect capital expenditures for 2009 to be approximately $75 million.

We currently have an interest rate swap in place for $800 million of our Term Loan B borrowings. The interest rate swap results in a fixed LIBOR interest rate of 5.345% on $800 million of Term Loan B borrowings. This swap expires at June 30, 2009. We expect our interest expense to be reduced beginning July 1, 2009 on this $800 million of Term Loan B borrowings.

At this time, our available cash and cash generated from our operations are more than sufficient to meet the liquidity needs of KAR Holdings, Inc., for the foreseeable future.

That concludes our formal remarks. I will now return the call to Jonathan, our operator, for the Q&A portion of the call. Jonathan?

QUESTIONS AND ANSWERS

Operator

Today's question-and-answer session will be conducted electronically. (Operator Instructions). Kathryn O'Connor, Deutsche Bank.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Good morning. I guess I just wanted to start off a little bit with whole car. I saw, in the 10-Q, that you said that overall industry volume was down 8%. So I am just wondering. I know your volumes were up I think 2% on acquisitions, but your same-store volume -- how did that compare to the industry?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Our same-store volume was essentially flat year-over-year.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay, so if I'm thinking about what helped you outperform versus the rest of the industry, I know your mix is better in terms of the kind of flows we are seeing to auctions right now. But has there been any effect from some of the smaller players maybe falling away? If there has been, can you just talk a little bit about that?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Well, I will tell you first, Kathryn, mix is a big part of it. As you know, we've always been heavily weighted towards institutional business. That has remained strong in the industry as we have had higher repossessions and off-lease volumes.

I am sure there is some impact as some of the smaller players have run into difficulty and their auctions have been more dependent, perhaps, on dealer consignment business. But those smaller auctions would tend not to have significant institutional volumes, which is the source of our strength and why our numbers are holding up so well.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay. Then maybe taking that out and looking forward, can you just speak to when we see -- because eventually obviously when the market recovers, we are going to start to see an improvement in auto sales, and that's going to drive the dealer consignment business. Can you just talk about what you're going to do going forward to change the strategy maybe to be more in line with what's going to happen in the out years, maybe a year from now?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, I think you have correctly recognized that we anticipate there will be a shift in components of the business. Specifically, the dealer consignment business or that sector will become much more important. So we are very focused on a number of programs internally to try and capture more of that dealer consignment business. We have expanded significantly our local sales staff that handles that dealer business. It's a very, we believe, locally focused type of sale, so we think that is best done by sales force on the ground at the various auctions. So we have a number of new incentive programs, a number of new additions to that sales staff, and a lot of focus on the dealer consignment end of the business.

We also, as you know, have been very focused on the Internet or e-commerce side of our business. We think that the dealers will gravitate over time. They continue to gravitate, over time, to that e-commerce side of the business. So we are very focused on attracting a larger base of dealers to our e-commerce sites.

So those are some of the things we are focused on. We believe that is going to be a significant opportunity in the next several years here -- not to say that our institutional focus will be in any way lessened, but we do definitely see an opportunity to increase our dealer consignment business.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Kathryn, part of the strength of our performance at ADESA in the first quarter was -- although not back to levels we experienced, say, in 2006/2007 and early '08 -- but we did see more dealer consignment business at our auctions, particularly in February and March. That's a promising sign.

Again, talking to Jim Hallett, as we have these strong institutional sales, the dealers will want to sell their cars to that buyer base that is attending those sales.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay. Then, how do acquisitions, going forward, fit into that strategy? Will you be trying to acquire some players that have more of a dealer bend? When would you start doing acquisitions again, above and beyond the sort of this year, trying to build your cash position?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, I don't know that our acquisition philosophy is going to change too much. By that, I mean we have been extremely disciplined and, frankly, it takes a very special deal for us to consider making an acquisition in this environment right now. That probably is going to continue as we go forward. So I don't know that the acquisition per se is going to be a cornerstone of our focus on the increased dealer business.

I think that the fixed, physical auction base that we have in place is pretty good. From a coverage standpoint, there are very few gaps in it. So I don't think that we will see any significant acquisition activity on our whole car auction side of the business.

Kathryn O'Connor - *Deutsche Bank - Analyst*

So you feel like you can leverage the assets you now have on the ground locally to improve that business rather than doing it necessarily through acquisitions?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Absolutely, yes.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

A good example of that, Kathryn, is our Kansas City auction where we just relocated in January and opened the auction. I would like to say, for the region, it is the premier auction now. In August of this year, we will open a new facility in Dallas which again will expand the capacity, and I think you'll see us really focus on bringing the dealer businesses into these new sites. Prior to those relocations, we have sites in Golden Gate, in Atlanta, that were developed along the same kind of footprint. So I think we have positioned our existing facilities to really step up and take on more dealer business.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay, that's great. Then maybe just moving over to AFC, I am trying to get a feel for how it's going to look going forward. I wanted to know, in terms of what -- the changes that we saw sequentially since -- I guess we saw some stabilization. You know, loan transactions decreased quarter-over-quarter from fourth quarter to first quarter to that sort of $204,000 a quarter kind of level. Should we think about that as the number of transactions that you want to do a quarter kind of seasonally adjusted? Is that sort of the new run rate?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I don't think so. The reason I would say that is what we really saw was the AFC portfolio shrinkage really sort of hit bottom in February and later in February. So we had a good portion of that first quarter where we were declining with that portfolio when it was hitting its absolute smallest level.

We've seen a decent bounce off that, not significant but a decent bounce off that. But it has been a consistent type of growth, but that really happened in March. Frankly, it was later in March where we started to see some of that activity.

So I think you'll see the loan transaction units pick up from where they've been running that first quarter, and that bottoming process really happened over the course of the fourth quarter. I would say, while the portfolio shrinkage continued and hit that bottom has bounced, the credit quality of the portfolio really improved every week not only of the first quarter but as we've continued into the second quarter.

So we've been encouraged that we've got both of those dynamics happening at the moment, that we have our portfolio, from a credit standpoint, where we wanted it to be, and we are now starting to see some growth but with a real focus in the organization and probably picking up on those growth opportunities.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Kathryn, we would normally have expected to see some growth in that portfolio, given the strong volumes at auction, but the one thing we saw in the first quarter, particularly for the franchise dealers for the domestic OEMs -- they were very active in the lanes, and we were not their financing source. They were going to the captive finance companies to floorplan their used cars. So as that has changed or at least the availability of credit has changed, this will be another opportunity for AFC to take the high-quality dealers and become their floorplan source for used cars.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay, so a sequential increase going forward then on volume you think?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

We are looking for that. I will say again I would expect it for the year. The second quarter is kind of staying flat right now. I mean, we are not through the second quarter. But I think there are some programs in place where we would expect it to start growing either in this quarter or definitely in the third quarter.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay. Then just a quick one on revenue per transaction -- it kicked up significantly from the fourth quarter there, almost double there to close to I guess $80 a transaction. Is that the right level now kind of, or do you think there is still some upside there?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

No, there's still upside. There still is what I believe higher than a normalized level of bad debts related to the size of the portfolio. It is lower than the fourth quarter; the bad debt experience was a lower number and that comes off of our revenue per transaction. So I still think there is some upside, Kathryn, but not as much is going from the fourth quarter to the first quarter.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Can you share the bad debt number? Because I think you may have mentioned, on the last call conference call, for the full '08, it was $50 million, and kind of in a normal year, it is only $20 million. So can you give us an idea of maybe where we are starting off the year?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Yes, it is right at $10 million. Again, that is spread amongst various places, as you know. But there was $10 million of provision for bad debt in the first quarter. In our plan, that is the largest amount; that's the highest quarter. We expect it to start to drop significantly and the current quality of the portfolio, meaning the amount of our balance that is current -- and you'll see that is really strong -- so everything indicates that we will see that reduced pretty significantly as the year goes on.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay, so you can keep the whole year under, say, something like $30 million, which is maybe more than the normal year but a lot less than last year? You still see maybe $20 million of upside from just bad debt write-offs in that business?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

I won't speak to a specific number, but I do agree you are directionally correct.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Jeff Skoglund, UBS.

Jeff Skoglund - *UBS - Analyst*

Good morning. I had to jump off there for a minute so I apologize if this has already been repeated. But as it relates to the government scrappage program, if you've answered this, just skip it, but do you know what -- have you thought about what the impact on your volumes might be over the near term?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, and I think you are referring to the cash for clunker program as they are referring to it in the press. We have been looking at it very hard. We've been involved in the process. We have been speaking with a number of government representatives. We are focused on being a part of the program, specifically through our IAA unit. We do think there's an opportunity there to be involved in administering and frankly handling a lot of at least how the program is anticipated to function right now.

It is sort of a work in process. As you know, politicians are still debating over what final form it might take, and some would say whether or not it will happen. But we are very focused on the program. We have been working closely with our lobbyists and with several of the politicians that are involved in crafting it. We do think there will be an opportunity on the salvage side of our business in participating in that program.

Jeff Skoglund - *UBS - Analyst*

Does scrapping a vehicle mean scrapping it for parts, or do you actually have to crash the thing down or --?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, and there is a debate on what will happen. The form of the legislation at least that we've seen of late is that some parts scrapping or parts redistribution will be allowed, but large parts of the vehicle will be required to be crushed.

So again, our debate is going on? as to what that final form will look like, but it will be some mix of allowing for parts to be removed from the vehicles before a crushing takes place on the engine block and the like.

Jeff Skoglund - *UBS - Analyst*

All right. Then is there any offsetting issues for the whole car side of the business in terms of volumes maybe going down a little bit? (inaudible) (multiple speakers) older vehicles. What does this do to the prices in the used car market generally?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I think the answer to the first question is yes. These are vehicles that some of these lower-value vehicles that would have found their way to the whole car auctions. So from a volume standpoint, we feel that there is some short-term impact, but it is really sort of a one-time speeding up of some vehicles that might have gone to the auction.

On the overall scrappage prices, I mean we would anticipate that there will, be from a pricing of scrap, a decrease.

On the pricing of the vehicles themselves, we have had a lot of studying and Tom Kontos has done a lot of work internally in our analytics department. He actually is of a mind that there could be some price firming of some of these vehicles as they become less available and there's less of a supply of them.

So I think there is some debate as to what the ultimate impact will be on vehicle prices, but again we are feeling okay about the program as it stands right now.

Jeff Skoglund - *UBS - Analyst*

Thank you.

Operator

Phil Volpicelli, Cantor Fitzgerald.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

Thank you very much. Good morning. On the IAA side, you mentioned there was a decline in revenue per vehicle but you didn't give us a magnitude. Is there any way you can give us just a little bit of -- is it down 1% to 5%, 5% to 10%? Anything that we can work with?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Well, we don't discuss that, but I would tell you again, in relative terms, it is hard to measure because these prices move so much, Phil. But the decline would have been consistent with our revenue decline.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

Okay. Then with regard to your large competitor in that market, how are you positioned? Are you guys still a little bit below them in price, or are you now even with them in price?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Well, again, as you know, it is bad form to talk about your competitor, but I think, as an industry, I mean if you look at it, our customers keep us in line. I would probably assess that, generally speaking, we consider the pricing of the two large players to be comparable.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

Okay. Then, as we look into the future here, the Manheim Index has been up the last couple (technical difficulty). It sounds like the auto market is coming to some sort of a conclusion in terms of GM and Chrysler. Do you think that this bodes well for prices to start to increase on the whole car side as we go through the year?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Again, I am going to refer back to Tom Kontos who is about to come out with his latest report. I think he remains cautiously optimistic, but there's only a certain level of firming that can continue on the used car side before you will start to see new car volume and new car prices become very competitive if the used car prices firm to too much of an extent.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

Right. In terms of that relationship between the two, where are we on an historical basis? Are we at the wides or are we getting closer to a normal relationship?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

In his last report, he felt there was still room for movement in used cars. But we are going to be nearing that level at which the difference will start to cause people to consider the new car an option versus the late model used car. I think his last report said there were still room for movement up.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

And my last question --

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

But again, I think we're getting close to what he would consider the wides.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

I got you.

With regard to the cash you are putting on the balance sheet, what are your, I guess, uses or preferred uses of that? Is it paying down the term loan? Is it making acquisitions? Is it just having cash on the balance sheet for safety?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I think, ultimately, our focus will be more towards deleveraging right now as opposed to additional acquisitions. So we haven't made any firm decisions on that other than we are focused on building that cash to the greatest extent possible. Ultimately, we think deleveraging will be forthcoming here.

Phil Volpicelli - *Cantor Fitzgerald - Analyst*

Great. Thank you guys. Good luck.

Operator

Michael Levine, BB&T.

Michael Levine - *BB&T Capital Markets - Analyst*

Good morning. I think most of what I was going to ask has been answered, but just a couple things. On the salvage side, with the revenue per vehicle going down, is that because the prices have gone -- because the auction amount has gone down? I guess what I'm asking -- have your fees gone up but the value of the auction has gone down and that has declined or can you --?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

No, I think it has been more driven by our volumes increasing some. So we have continued to see, certainly on a year-over-year basis, weakness in the proceeds and where other overall proceeds are. I would say that is driven -- which I mentioned earlier -- by scrap steel prices, mostly. I think there is still a function of strength of the US dollar in some of our buyer markets that has also probably weakened prices that are being bid at auction. So those two components are probably affecting prices more so than others. Volume increase is making up for some of that decline on the other side.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Michael, our pricing is generally on a tiered basis. So, as those values paid to acquire the car decline, you will see that decline in the buyer fee, which is where you will see the biggest change.

Michael Levine - *BB&T Capital Markets - Analyst*

Okay. As far as you mentioned the exchange rate, the dollar has weakened again this quarter. Is that going to help you?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I mean -- and again, I haven't followed this closely by the Eastern European currencies and the peso would be the buying base that we would be most focused on. That's where we see most of our buying activity coming from some of those Eastern European markets and the Mexican market specifically. So I think that both of those marketplaces have been definitely weakened, some of it currency-related but I think they are troubled economies in those areas, and those buyers not doing as well and not being as strong as they were in the past.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Michael, relative to just the accounting, the $0.04 shift that we've had over the past week versus the Canadian dollar, yes, [somebody] will change the numbers but that's not really how we look at our business. But yes, there would be a positive impact if we get back to closer to par like we were with the Canadian dollar, because that is really -- our only international operations are in Canada.

Michael Levine - *BB&T Capital Markets - Analyst*

Okay. Along the same line in the finance business, I think, last quarter, you talked about changing your pricing structure. Have you seen an impact from that? Is that going to carry through the year?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, we have. It has helped us significantly from an interest-rate spread basis, as well as some of the fees that have been increased, obviously on a much smaller portfolio with lesser loan transaction units. But we do think that the pricing changes that we made are sticking, and we would expect to see continued benefit of those throughout the balance of the year.

Operator

Matt Nemer, Thomas Weisel Partners.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Firstly, I wanted to hit on the Chrysler and GM situation quickly. Are you able to actually contact dealers that have been notified they may lose their franchise to try to procure some of that volume? How do you think that excess volume will sort of flow through the supply chain? Then also, could the excess volume have an impact on prices to the extent that salvaged total loss percentages will increase?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I guess to answer the first question, certainly in the Chrysler situation, yes, we have already seen Chrysler dealers that have approached us and frankly that we have approved just here in the past couple of weeks. We have added some significant Chrysler dealer floor plans to the AFC business. So we do expect to continue and, frankly, we do have a focused effort on Chrysler dealers that are going through a process right now of having to obtain new floorplan lines, be it from GMAC taking over that business or other sources. So AFC is positioned to participate in that, and we do think there is an opportunity there.

As far as the sale of the vehicles themselves, I think the greatest impact probably is going to be at the whole car auctions. I think that the Chrysler vehicles coming back to auction we are watching very closely to see what sort of price depreciation might be experienced. It is still early in that process. There has been -- some of the lease guides are now reducing residual values with the Chrysler vehicles to anticipate and to reflect that at the moment. So, that's sort of a process that is ongoing that we are watching. We are viewing the Chrysler situation as sort of like the test run for what will be an even larger situation if the GM bankruptcy follows.

Matt Nemer - *Thomas Weisel Partners - Analyst*

As brands shut down, I would think that would have a positive impact on total loss percentages, i.e residuals are dropping quickly and then the insurance companies end up totaling more of those brands, say Pontiac or Hummer, etc.

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

I would think you are right. Frankly, it is something that we haven't thought that much about but I think you are probably right. It really has been a challenge to try and anticipate all of the fallout from these bankruptcies and the disruption in the marketplace. I think that probably flows through the system over a more extended period of time here, but it is probably another one of the, as I say, fallouts from the situation.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Then turning to insurance auto quickly, are we thinking about this right if we are taking your revenue down 3%, your units up 5%, and then suggesting that price would be down about 8%, just basically taking the difference between the two? If that's the case, it looks like the price change was pretty consistent from the fourth quarter to the first quarter. Is that a fair assumption?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Yes, I don't know that the price change was quite 8%, but it is just a little below that in terms of our revenue per unit.

Matt Nemer - *Thomas Weisel Partners - Analyst*

In terms of the sequential decline in unit volume, you were up almost 10% in the fourth quarter, down to about 5% in the first quarter. Is most of that the rolloff of acquisitions that were completed in prior periods, or was there a significant change in the organic unit rate?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

It's actually probably more -- there's a little bit of the acquisition stream, but most of it is organic. I mean, last year's first quarter was an unbelievable quarter in volumes. The first and second quarter last year, Matt, you may recall from other companies you cover as well -- extremely strong volumes at the salvage auctions. So I would probably describe it as much as tough comps as anything in the first quarter. I think it will continue in the second quarter.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Because it looked to me --

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

That in the volume comps.

Matt Nemer - *Thomas Weisel Partners - Analyst*

It looked to me like a couple of major acquisitions were done in the middle of the first quarter. I think (multiple speakers)

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Yes, February 15, we acquired Verastar last year, and it was a 12-location acquisition. So yes, that did contribute some of it.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Okay. Then, one more thing on insurance auto -- I was curious. You mentioned that fuel expense was a headwind, and it looks to me like diesel fuel prices were down pretty significantly year-over-year. So is that just that it is taking longer to sort of renegotiate sub-hauling contracts, or what was behind that?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Well, I don't know that it is taking longer to renegotiate the nature of our contracts. To be honest, we probably get less on the down side than we would like and we eat the upside a little bit. But Tom O'Brien and his team are doing a great job of getting that to be more variable. In the first quarter, I think it will improve as the year goes on.

Again, how fuel is purchased for towing, I don't think you can look at the unleaded fuel price or the diesel price and compare it. You actually probably saw a headwind in that area related to what the towers or incurring and what we were paying in actual cost. As you know, beginning late in the second quarter, it is going to be a significant improvement year-over-year.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Understood. Okay. Then lastly, just on this cash for clunkers topic, is the issue that essentially somehow you need to close your network so that these vehicles can only be purchased by licensed dismantlers or recyclers, based on the fact that part of them needs to be completely destroyed? Are you able to close your network like that so that you can basically cut out, say, certain buyers or national buyers, resellers, etc.?

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Yes, I think it is one of the challenges of the program, that the government will require some sort of verification that these vehicles are not back on the road. So that will be part of the process, that there will have to be some certification that the vehicles are actually -- and in the parts of the vehicles that are required to be crushed, that that is in fact happening. So that's sort of another item that is being worked on, how that whole process is going to function.

Matt Nemer - *Thomas Weisel Partners - Analyst*

Okay, that's all I've got. Thanks very much.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

We could probably, Jonathan, do one more.

Operator

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research - Analyst*

Just real simple question actually, most of them have been answered. Did you give the same-store sales number for insurance auto for the quarter, or do you give that out?

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

We did not give it out, and it is not published in our Q. I would tell you -- and Gary, let me describe why that number is becoming less relevant, and then I'm going to give you directionally what it was. But as we've looked at the insurance industry, there has been a lot of movement of vehicles amongst locations by the large insurance carriers where they are balancing out their portfolio of cars. So same-store may not be driven by the business. We may have moved cars that were historically in one location to an acquired location from Verastar. But they were our cars before.

But if you do a pure same-store, our units were down very slightly, I mean negligible amount, on a same-store basis.

Gary Prestopino - *Barrington Research - Analyst*

Thank you very much.

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

All right, Gary.

Eric Loughmiller - *KAR Holdings, Inc. - EVP, CFO*

Thank you.

Operator

Ladies and gentlemen, that does conclude today's question-and-answer session.

Brian Clingen - *KAR Holdings, Inc. - Chairman, CEO*

Thank you very much.

Operator

Once again, ladies and gentlemen, that does conclude today's conference call. We appreciate your participation.