ADESA, INCORPORATED

Moderator: Eric Loughmiller
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Operator: Good day, ladies and gentlemen, and thank you for your patience. Welcome to the KAR Holdings, Inc. Q2 Earnings conference call. Now keep in mind that today's call is being recorded.

Today's host will be Brian Clingen, Chairman and Chief Executive Officer of KAR Holdings, Inc. and Mr. Eric Loughmiller, Executive Vice-President and Chief Financial Officer of KAR Holdings, Inc.

I would now like to turn the conference over to Mr. Loughmiller. Please go ahead.

Eric Loughmiller: Good morning and welcome to the second quarter KAR Holdings Earnings call. Today, we will discuss the results of operations of KAR Holdings, Inc. After conclusion of our commentary, we will take questions from participants. We will try to accommodate as many questions as possible; however our call will end 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 can 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 comments on our performance and other items of interest.

Brian Clingen: Thank you, Eric and thank you joining us. Again some brief comments on the second quarter. We continue to be quite pleased with the performance of all three of the business units. We have continued to see similar to the trend in the first quarter and in the call that we had in the first quarter improvements really in all three of the business units, and again, quite pleased with the performance.

Some brief details on each - at ADESA our whole car volumes and performance continues to be quite strong. We have continued to see very strong conversion rates and use vehicle prices firming. So performance at the ADESA Whole Car Auctions continued in the second quarter to be very strong.

A couple significant events that were really in process the last time we spoke to you, the bankruptcies at General Motors and Chrysler now obviously complete and those two companies operating in a post bankruptcy environment.

From our business standpoint, we really came through that situation with minimal exposure on our receivables pre-bankruptcy, and in addition to that, minimal degradation of values in those vehicles from both of those manufacturers.

So some concern about how the industry affect would be through the bankruptcy of both of those. I think that we feel that we got through that process in good shape and we continue strong business relationships with both of those manufacturers and expect that to continue in the future.

In the salvage auction business, IAA again has continued to perform quite well. We have seen some slight reductions in volumes here but a very good job done by the team in maintaining margins and strict cost controls there. So we again have been very pleased with performance at the IAA business.

We do have the significant event with the Cash for Clunkers that you all have been reading about in the press of late. And I think that our feeling internally is that at the moment, it is still very early in that process at least from the administrating of the program, but that we do not expect to have significant impact on our business either positive or negative.

Again it is early in the process there. We are monitoring it closely but we are not looking for real material impact on our business from the Cash for Clunkers program.

And then finally, our AFC business continued really on the same trend that we have seen in the first quarter, significant recovery on our portfolio quality there and we continue to be very pleased at the performance of our dealers and our customers and our overall receivables there.

We are seeing a return to some growth. Certainly nothing like what we had seen several years ago, but definitely some firming in overall growth in the portfolio and we think that that business continues to be on the right path, and again very pleased with the performance of the new leadership there as well as the performance of the business.

A couple just real summary general comments on our balance sheet, we continue to see the cash - strong cash generation from our business and we have been pleased with the build of our overall cash balances.

And then secondly, we were able to in the second quarter replace a expiring interest rate swap and cap agreement which has given us some significant improvement in our overall interest expense, and we really feel positioned us from a balance sheet and debt perspective very well for the next several years.

So those are just some general comments on the second quarter performance and I will turn it back over to Eric to walk you through some details.

Eric Loughmiller: Thank you Brian. Yesterday we reported our financial results for the second quarter of 2009. Net revenues for the second quarter of $439.1 million declined 6% from $468.5 million for the prior year. I will discuss this decrease by business segment momentarily.

Adjusted EBITDA as defined in our credit agreement totaled $114.9 million for the second quarter of 2009 compared to $122.6 million for the same period in 2008.

The second quarter of 2008 was the strongest quarterly performance by KAR Holdings or its predecessor companies in its history. I will now discuss our performance by business segment for the second quarter.

ADESA Auctions reported revenue of $279.5 million in the second quarter of 2009, a decrease of 4% from $291.2 million for the same period in 2008. The decrease in revenue reflects a 2% decrease in number of units sold and a 2% decrease in revenue per vehicle sold.

Although unit volumes decreased year over year for the second quarter, the number of units sold for the first six months of 2009 were flat in comparison to 2008.

The decline in revenue per vehicle sold is primarily attributable to a reduction in the value of the Canadian dollar as compared to the U.S. dollar in 2009 as compared to the same period in 2008.

In addition, we experienced a modest decline in ancillary services revenue per vehicle sold which was offset by an increase in auction fees per car sold in the second quarter.

Gross profits for the ADESA Auctions segment of 45.3% for the second quarter of 2009 was an improvement from 43.5% for the same period in 2008. Improvement in gross profit reflects the strong conversion rate for cars sold at ADESA Auctions in 2009.

In addition, the implementation of Project Pride initiatives at our largest auctions and over three-fourths of all of our auctions have resulted in reduced labor costs and improved profitability.

Selling general and administrative expenses for the ADESA Auctions segment aggregated $52.3 million in the second quarter of 2009 compared to $55.9 million for the prior year.

ADESA Auctions focused on controlling costs and was able to reduce marketing costs, bad debts, professional fees and auction supplies expense. Implementation of Project Pride throughout our auction locations has been a major contributor to controlling and reducing SG&A costs.

As all of you are aware, Chrysler and General Motors filed for bankruptcy protection in the second quarter of 2009. Both companies remain important customers of ADESA Auctions.

At the time of their respective bankruptcy filings, our aggregate accounts receivable from the two companies was less than $400,000. We have fully reserved for the full amount of pre-petition accounts receivable from Chrysler and General Motors.

Insurance Auto Auctions revenues of $139 million for the second quarter of 2009 represents a 6% decline from $149.5 million for the prior year. IAAI experienced a slight reduction in the number of units sold. Substantially all of the decrease in revenues relates to revenue per vehicle sold decreases due to lower values paid for vehicles in the second quarter of 2009 as compared to the same period in the prior year.

Despite lower revenue per vehicle sold, IAAI was able to generate gross profit of 37.9% of revenue for the second quarter of 2009. This gross profit percent was consistent with the prior year.

IAAI was able to reduce cost of services for outside labor, supplies, travel and auction costs. Selling general and administrative expenses for IAAI of $15.7 million for the three months ended June 30, 2009 decreased 5.4% from $16.6 million in 2008.

Reductions in integration related expenses, travel and office and print supplies account for the reduction in SG&A.

AFC net revenue of $20.6 million for the three months ended June 30, 2009 was 28.5% lower than net revenue of $28.8 million for the prior year. The decrease in net revenue reflects the significant reduction in the number of loan transactions in the second quarter of 2009 as compared to the prior year.

AFC did experience an increase in the average revenue per loan transaction to $111 in 2009 from $95 in 2008. This increase reflects increased origination fees per transaction and a modest reduction in net bad debt expense for the quarter.

Cost of services for the second quarter of 2009 of $7.3 million declined 20% from $9.1 million. This reduction reflects reduced wages for field personnel and reductions in other office related expenses.

AFC selling, general and administrative expenses of $2.8 million for the second quarter of 2009 declined 20% from the prior year. This reduction is primarily attributable to reduced compensation and related costs due to headcount reductions implemented in the third quarter of 2008.

At June 30, 2009, AFC had total receivables of $477.4 million compared to $809.8 million at June 30, 2008. AFC had $269 million outstanding on the securitization facility at June 30, 2009. AFC is in compliance with all covenants of its securitization facility.

KAR Holdings generated a substantial increase in cash from operations and management of working capital in the second quarter of 2009. Our available cash balance at June 30, 2009 was $191.9 million, an increase of $78.8 million from March 31, 2009. We had no borrowings on our line of credit at June 30, 2009.

Capital expenditures of $15.7 million in the second quarter of 2009 were in line with our expectations for the quarter. We expect our capital expenditures for 2009 to be $70 to $75 million which will be at or below our previous guidance.

During the second quarter, we entered into an interest rate swap and interest rate cap arrangement effective June 30, 2009. Our original interest rate swap that resulted in a fixed LIBOR rate of 5.345% on $800 million of floating rate debt expired on June 30, 2009.

We entered into a swap agreement that fixed LIBOR on $650 million of floating rate debt at 2.19% for three years beginning June 30, 2009. In addition, we entered into an agreement that capped LIBOR at 2.5% on $250 million of floating rate debt. The cost of this arrangement was $1.3 million with a duration of two years beginning June 30, 2009.

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 our Operator for the Q&A portion of today's call.

Operator: Thank you gentlemen. If you would like to ask a question, please press the star key followed by the digit 1 on your telephone. For those of you who have joined us using a speakerphone, remember to turn off your mute function before signaling for a question. Once again that is star then 1 to ask a question.

We will go first to Deutsche Banks, Kathryn O'Connor.

Kathryn O'Connor: Hi good morning.

Brian Clingen: Good morning Kathryn.

Kathryn O'Connor: I just wanted to maybe ask a question here about the AFC business. It looked like, you know, sequentially we kind of, you know, we finally (troughed) out there I guess in the first quarter of '09 and, you know, we are seeing some improvement in this quarter.

And I just want to take a look at the revenue per transaction at $111 and then just the number of transactions in total, the 185,000 transactions and kind of ask if that is where we should think about this business going forward because I did notice in some of the comments in the queue you had said that at this point the business had stabilized and you were beginning to focus on disciplined growth opportunities.

So I just want to get an idea of how to think about that business given that I think we still have some run through in terms of, you know, in terms of performance if we are going to stay at this level that we had this quarter, and then kind of ask you what does growth opportunity - what is the growth opportunity that you were talking about on the queue?

Brian Clingen: Yes, in - I think to answer really both parts of the question, we do not think that this is, you know, stabilized level going forward. We do think that, and we are seeing already a build in the portfolio. So I think that trough as you mentioned was sort of late first quarter early second quarter and there has been a period of, you know, what I would say a stabilized portfolio size.

But now what we are seeing and really what the focus of the business has been on disciplined growth opportunities. And we are somewhat encouraged there. And I say that because as you know, several of the what I would call non-industry participants have really exited from the field.

There has been definitely what I would say is almost a crisis period for even some of the franchise dealers, and so we are seeing business that in the past we probably wouldn't have a look at.

So when we mentioned discipline growth right now, we have tried to be very careful in sticking to credit standards and new underwriting standards that we have, but the environment out there is such that we do think that we have opportunities and we are seeing opportunities that we have not seen in the past.

So, we expect that you are going to see both the transaction volume and the revenue per transaction strengthening as we move forward here.

Kathryn O'Connor: Okay. So I guess qualitatively, is it safe to say that the transactions each month of the quarter, we are building the number of transactions, we are building through the quarter?

Brian Clingen: Yes. That is correct.

Kathryn O'Connor: So then even in July we have now seen an increase from June?

Brian Clingen: We think that the third quarter is going to continue that trend. Yes.

Kathryn O'Connor: Okay. And then you are also saying that you have - you guys are having, you know, opportunities to look at business with franchise players. That is obviously different right?

Brian Clingen: Yes it is. And I should qualify that that some of these may, and in many instances are ex-franchises or franchise players that may in the future be losing the franchise but are becoming independent used car dealers. And specifically that might pertain more, obviously the Chrysler franchises were lost so those conversions were done.

But many of the GM franchisees that may be losing a franchise will not see that happen until sometime in 2000 and actually it will be later in 2010. But in many instances they have already had their previous floor planning arrangements terminated. So those are the opportunities that we also have been seeing.

Kathryn O'Connor: Okay great. So that helps in the volume side, but maybe from the revenue per transaction similar trend improving revenue per transaction through the quarter and improving into July as well?

Eric Loughmiller: Yes. We are seeing improvement Kathryn. Again, going back in history you can look at - we have historically seen revenue per transaction that was in the $120s and we are in the, you know, $111 right now and I think we will see that gradually grow.

You know, with the portfolio strength that we have right now, to be honest our average days is much lower than it even was 2-1/2 years ago. And one of the aspects of that though is, you know, you do not have as many curtailments and they are not paying late fees and things like that because they are paying off so timely.

So we will see it grow gradually but I am not going to predict where we will end up compared to the past, but I think we will improve from today's position.

Kathryn O'Connor: Right. That was...

Eric Loughmiller: It will be steady.

Kathryn O'Connor: Thank you. That was (hopeful) and then just one other question. You said that Cash for Clunkers you think is not going to, you know, affect you positive or negatively really on the margin. Could you just give some, you know, some, you know, give us some idea of what your thought process is behind that?

Brian Clingen: Yes. And again, I think it is early in that process, but it really affects our businesses in a couple different ways. The one that we continue to be concerned about is what will happen in proceeds, and specifically as scraps deals and prices with this volume of vehicles hitting that market.

Again, we have not seen a significant impact yet, but we are somewhat concerned that with an acceleration of this volume hitting the market that that could have a negative impact on proceeds.

Offsetting that is we will be a significant administrator of the program. And by that I mean many of these cars we have and continue to make arrangements with dealers to bring them specifically to our salvage auctions.

So those two forces probably somewhat offsetting each other, but from an overall revenue standpoint we do not see it as a particularly significant event.

What it is going to do in the whole KAR market, again we are watching and Tom Kontos in our analytics area watching just what it is doing with used vehicle prices and supply. And there again, our early indications are we are not sure it is going to have a huge material impact.

Kathryn O'Connor: Okay. So I - generally speaking you think it is more neutral on the whole car side and on the salvage side you think you have a positive and you have some positives and negatives but you think overall it should be - it could be slightly positive.

Brian Clingen: I would probably if I had to guess right now take the opposite tact and tell you that our concern over what might happen with proceeds probably is more significant than any revenue we could make from administering the problem. But net net I just do not think that it is going to have a real material impact on our business.

Kathryn O'Connor: Okay. All right. Thank you very much.

Eric Loughmiller: Thank you Kathryn.

Operator: Okay. And next in our queue today we have Gary Prestopino with Barrington Research.

Gary Prestopino: Hey good morning guys.

Brian Clingen: Good morning.

Gary Prestopino: Brian I kind of missed some of your commentary at the beginning. I got cut off. But this question is really pertain to the salvage industry. Sales were down 6% on AAI. What were the same stores? Do you make that public anymore?

Eric Loughmiller: I made a comment Gary. This is Eric. It was down slightly but I would say essentially flat.

Gary Prestopino: So and so really the majority of this decline in sale dealt with lower prices?

Brian Clingen: I think the proceeds were the significant impact on that revenue decline and volumes not so much.

Gary Prestopino: Okay. And then, you know, since prices of cars, at least wholesale, have started to come up, what are you seeing or can you comment on what you are seeing in the July, August time period relative to what you saw in Q2 in terms of pricing...

Brian Clingen: Yes and I...

Gary Prestopino: ...and possibly volumes.

Brian Clingen: I think we would say right now Gary that late in the second quarter and coming into the third quarter we have seen some firming in proceeds. And so we are cautiously optimistic that that trend can continue. But yes, there was some firming late in the second quarter and we have seen that continue into the third quarter.

Gary Prestopino: What about volumes? Any comment there at all or...?

Eric Loughmiller: Again, the volumes I think, I think as I have indicated before we see this as slight to very slightly in the industry for the year and we are consistent with that. You know, it is - Gary as you know from following the business, it is a function of floods and natural phenomena that determines whether we are flat or maybe down low very low single digits.

Gary Prestopino: Okay thank you and then just one quick com - question on the clunkers program. Are the majority of these cars going directly to salvage auctioneers like yourself or do you feel that there is possibly - are they going to go directly to recyclers because these would be very low value cars would they not?

Brian Clingen: Yes. I think that is correct in - again it is still early in the program. We are seeing, you know, some volume. I think there is going to be definitely some of it that will go directly to recyclers. But again, in total, we certainly at the 250,000 vehicle level thought that this was going to be a real non-event.

You know, we have definitely been more focused on it once the government decided to increase the size to where they have right now. But I think we will see some of that volume - they will be very low dollar vehicles and it will be spread about with other redistribution channels as well.

Gary Prestopino: But those - and then just one more com - but those vehicles that you get in clunkers, you should be able to turn those a hell of a lot quicker than, you know, a car coming from the insurance company, right, because you do not - there isn't the length of time to clear a title, correct?

Brian Clingen: That is correct. They do have a much quicker turn so that is a plus from the standpoint of processing.

Gary Prestopino: Okay thanks guys.

Operator: We will go now to Adam Silver with Babson Capital Management.

Adam Silver: Hi. All my questions have been asked. Thanks.

Brian Clingen: Thank you.

Operator: Thank you, Mr. Silver. We will move onto Tom Shandell with Fridson Investment Advisors.

Tom Shandell: Hi. Good morning. There were a couple references to foreign exchange in the 10-Q. One I guess was a decline in revenue per vehicle having to do with the Canadian dollar and the other was in other income having to do with transaction gain. Can you elaborate on those?

Eric Loughmiller: Well yes. I mean if you look at what are we - we are in the low 90s compared to a year ago. We are seeing things change. So it is just really the conversation rate, you know, on this.

Tom Shandell: I mean I - is the affect on EBITDA less than the affect on revenue because you have some expenses in Canadian dollars?

Eric Loughmiller: It is probably flowing through. You know, my expenses are going to be comparable. So, you know, it is - and it is predominantly going to be in the used car business, salvages probably has less impact although it does have some, but it is equal to cost in revenue. So that would be - the reference though was really to revenue per vehicle right...

Tom Shandell: Right.

Eric Loughmiller: ...in the queue. And that is because of again in the used car marketplace as I recall we were at par roughly par last summer Canadian dollar to U.S. dollar. And while it is rebounding, you know, it is down while it was in the low 80s early in this year it is now in, you know, we are down - up around 90 cents to the dollar.

Tom Shandell: All right. The reference in other income made it sound like it was a transaction affect. Was that...

Eric Loughmiller: No. The other income is merely the recalibration of the balance sheet. That is all that is.

Tom Shandell: Okay. Fair enough.

Eric Loughmiller: It is not transactions as you are thinking of it.

Tom Shandell: Okay.

Eric Loughmiller: It is the translation gains and losses when we revalue the balance sheet month - quarter to quarter, month to month.

Tom Shandell: Great. I appreciate that. Accounts receivable, you know, you mentioned in your formal remarks that you had good cash from working capital and AR was down significantly year over year and quarter to quarter. You know, is that sustainable? What is driving that?

Eric Loughmiller: Well again. One thing Tom, you know, I urge you to be careful of is the timing of a quarter end can determine that number because a significant amount of our receivables are amounts we collect on behalf of the consignors of vehicles.

So -- but generally speaking, yes. We think we are -- it is a sustainable position relative to the fact that we have tight controls on receipt of payment in relation to the release of cars to the buyer. And that will continue.

Tom Shandell: Okay. And last question, the non-recurring charges that you always highlight. What was the nature in this quarter's non-recurring?

Eric Loughmiller: Pardon me again Tom. I...

Tom Shandell: You always nicely break out the non-recurring charges in your EBITDA reconciliation. And I was just wondering, you know, it was a smallish number this quarter, but I was just wondering what was behind the non-recurring charges that you highlighted for this quarter.

Eric Loughmiller: The foreign currency was the biggest component...

Tom Shandell: Okay.

Eric Loughmiller: ...for the quarter.

And then other than that, we have some non-cash (rent). I mean the other things are very small.

Tom Shandell: Okay. Appreciate it, thanks.

Eric Loughmiller: That was a -- hold it Tom. That was non-cash that you asked about right?

Tom Shandell: No I was asking non-recurring.

Eric Loughmiller: I apologize. I caught that. The non-recurring, you know, we continue to have some costs for Project Pride and those activities although they are starting to decline. And that was the biggest component of those.

We also had retent - no retention, I am sorry, severance payments as we have responded to economic conditions as volumes have moved around at different auctions. There is about a million dollars in severance payments and about $3 million in payments related to our Project Pride and other cost savings initiatives.

Tom Shandell: Okay. Appreciate it.

Eric Loughmiller: Those were the cash - the non-recurring cash charges.

Tom Shandell: Right. And the other ones I guess were...

Eric Loughmiller: The others were the non-cash.

Tom Shandell: Non-cash, right. Great. Thanks Eric.

Operator: In our queue from Meritage, we have Derek Larson.

Derek Larson: Hey guys how are you?

Eric Loughmiller: Hi Derek.

Derek Larson: Just - a couple questions have already been asked. But just quickly on salvage again, I knew you said (some) volumes were flat to slightly down. Is that a true organic number and I apologize, I could probably go back and figure out when you closed too many acquisitions last year but I just was curious.

Eric Loughmiller: Well it is a true organic number because the acquisitions were completed in the first quarter. So by second quarter, there really are - there are no new acquisitions.

Derek Larson: Okay great. And then...

Eric Loughmiller: And (Veristar) was the big one last year so it impacted the numbers through February.

Derek Larson: Got you. And then the other question is as you look at the sort of the environment, I know you guys have always been talking to other small independent auctions across the country, is there - what is the acquisition landscape look like now? Is there - is the economy or people sensing that they can hold onto some of these deals longer or just kind of curious as to, you know, what - who you guys are talking to and what you are seeing.

Eric Loughmiller: Yes. In our position really vies a vie acquisitions has not changed from the standpoint that it is really not a focus and has not been a focus this year. So we have not spent a lot of time taking a lot at - and as you know, specifically in the salvage industry, there is not a whole lot of potential acquisitions out there. And certainly we have not been focused on the few smaller ones.

At the whole car level, again there is a group of independent auctions that potentially could be acquisitions in the future, but certainly as it pertains to this year, it is not a focus. And we really have - continue to have all of our management teams really concentrating on the current businesses that they have in place and working on revenue maximization and margin improvements at those businesses.

So I would say that acquisitions in general continue to be not much of a focus for us.

Derek Larson: Okay. And then just lastly on AFC, I - it sounds like through the revenue transaction growth is sort of limited, you know, sounds like you had about $9 there, you know, from $111 to $120. But, you know, when you talk about growth there or thought - think about it, I mean what about sort of volume - do you think there is a lot of volume that you are still missing, or not missing but selectively avoiding or do you really think it is (gone) as sort of revenue per transaction and then if you could just make a comment too on how that improvement - is that driven by higher fees you are charging or is that just sort of the reversal of some of the credit losses that you guys have experienced the last couple quarters.

Brian Clingen: I think the last point is very significant in that that revenue per transaction is impacted very significantly by the credit losses to the extent that we did see a lot of those in 2008. So improvement in that revenue per transaction I think will be most materially impacted by significant improvements from where we were in periods of ’08.

From just an overall volume standpoint and a pricing standpoint, again we think there are some opportunities for some disciplined growth there and on the pricing front, we are pleased with where we have our pricing and we think that the adjustments that we made over the course of late ’08 and early ’09 really reflected the changing business.

So I do not think we are looking for significant changes in our pricing, but we do think that opportunities from both the enhanced credit quality as well as just overall volume growth is there for that business.

Derek Larson: Okay thanks.

Operator: Next we have Robyn Browdy with Highline.

Robyn Browdy: Yes hi. I am new to the story so I might not be understanding everything correctly. But I thought I heard you say that IAA comp were flat. But then when I do the math on the revenue I get down 6%. Can you help me just bridge the two please?

Eric Loughmiller: Yes Robyn. I mean the volumes were flat. I mean, again, I have indicated slightly down but rounding to zero. And the decline in revenue is really revenue per vehicle sold and that is because while we have what we call fixed tier pricing, meaning it is not a commission, there are tiers based on the value of the vehicles, we have seen a significant decline in the values paid per vehicles in 2009 as compared to 2008.

A large portion of that Robyn was in 2008 prior to the - China - the Olympics in China, scrap metal prices in the commodities market were very high.

Robyn Browdy: Well...

Eric Loughmiller: And that...

Robyn Browdy: Oh no. I am sorry. So that led to higher prices last year.

Eric Loughmiller: Yes. The values paid at auction because what - after you dismantle a vehicle what is left is a lot of metal that you can scrap. We think that was a primary contributor. Also though, you have fewer miles driven, fewer cars on the road, fewer accidents.

After the course of the past year we have talked about all these factors have been putting pressure on the values paid at salvage auctions and, you know, it is year over year. That is really the issue.

Robyn Browdy: So as we look into the second half of 2010, if prices to stay - were to stay where they were - where they are today, would you start to see positive ASPs or pricing revenue per vehicle?

Eric Loughmiller: Yes. I mean the decline really began in September of last year.

Robyn Browdy: Okay. And then can you help me understand how you and others in the industry can participate in Cash for Clunkers? It was my understanding in the bill that it had to go to a salvage yard or to an authorized.

Brian Clingen: Yes. And the way it works is that we have to be careful and we have to qualify our buyers. And they have to be licensed to participate in the program and actually receive the vehicles.

We as a salvage auction can take the cars and we have the authorization to take the cars directly from the dealers. So our relationship at IAA is with the dealers and we bring the vehicles to our salvage auctions. And the buyers we have to certify are qualified to participate in the program and take the vehicles.

Robyn Browdy: Okay great. Thank you so much.

Brian Clingen: Okay.

Eric Loughmiller: Thank you.

Operator: From AIG we have Kyle Chung.

Kyle Chung: Hi. For the past couple of quarters, I think you focused on cash generation or cash bill and now you are up to almost $200 million. Do you expect to continue to build cash going forward?

Eric Loughmiller: This - Kyle this is clearly as - this is a generates cash every quarter and so we continue to focus on the generation of cash. And so yes, we think we can continue to build cash. I am not sure we can continue it at the accelerated level we saw in the second quarter of this year, but yes, we do think we can maintain strong cash generation in the business long term.

Kyle Chung: And I thought I heard you say that acquisitions are not a focus right now. So what do you intend to do with that cash that is, you know.

Brian Clingen: Ultimately we believe that we need to continue to deleverage the balance sheet. And so I would say at the moment the focus is more on overall debt reduction in the longer term. At some point time, opportunistic acquisitions may come back on the table, but certainly, as we headed into 2009 and continuing as we move forward right now we are looking at deleveraging the balance sheet.

Kyle Chung: Thank you.

Operator: And with EOS Partners we have John Keh.

John Keh: Actually all of my questions have been asked already. Thank you.

Brian Clingen: Thanks John.

Operator: Thank you. And let's see, we will take our final question as a follow up from Derek Larson.

Derek Larson: Oh hi guys. I just had a quick question. Yesterday in the at - in the - or early yesterday, maybe two days ago that the release that Tom put out he, you know, the mention of sort of supply and inventory is down to 33 days. I think it was up to kind of mid 70s probably at the end of last year. Could you just make some comments on how you see supply maybe trending for the second half of the year and, you know, are you concerned about the current level of supply.

Brian Clingen: Yes. And Tom has been monitoring this and he has had some comments on it but clearly we are in a tight supply environment for used cars. And so we continue to always be concerned about that in trying to maintain adequate supply at our auctions.

That flip side of that tight supply environment has been the very high conversion rates. And so, you know, we are beneficiaries of that from the standpoint of firming and pricing at the vehicles as well as that helps our margins when we have those high conversions.

But certainly we continue to be very focused. And the team at ADESA working very hard at maintaining, you know, the best supply that they can. But you are correct. And Tom has made comments on that. We are in a real tight supply environment in the used car market right now.

Eric Loughmiller: And Derek the other aspect is you are comparing what is historically a low period in inventory in the industry to historically what the high period which is year end. Typically our consignors do build inventory through the late full and early winter preparing for what is known as the primary selling season which begins, you know, middle of January to end of January.

Derek Larson: Right. I understand. I just was - it has been pretty evident though the supply is kind of tight. I am kind of curious. Have you seen supply from, you know, off from fleet? Is that - now they start to de-fleet after the summer? How is that kind of -- are you starting to see that in a major way or do you think that is going to be sort of later in the year?

Eric Loughmiller: Well again, it is hard to predict the timing by individual fleet but yes, you start to see the de-fleeting historically with the rental car companies in post Labor Day and then the corporate fleets usually in the fall as well. So I think you are right to expect that to be part of the build of inventory towards year end.

Operator: And that concludes today's question and answer session. Gentlemen I will turn the call back over to you for additional or closing remarks.

Brian Clingen: Well thank you everyone for participating and that is all we have today.

Operator: Again thank you for joining today's conference call. Thank you for your participation.

END