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KAR - Q2 2010 KAR AUCTION SERVICES INC Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the KAR Auction Services, Inc. Second Quarter 2010 Earnings Conference Call. Today's call is being recorded. Today's hosts will be Jim Hallett, Chief Executive Officer of KAR Auction Services, Inc.; and Eric Loughmiller, Executive Vice President and Chief Financial Officer of KAR Auction Services, Inc.

I would now like to turn the call over to Mr. Eric Loughmiller. Please go ahead, sir.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Thank you. And welcome, everyone, to the KAR Auction Services Second Quarter Earnings Call.

Today, we will discuss the results of operations of KAR Auction Services, Inc. for the period ended June 30, 2010. After concluding our commentary, we will take questions from participants. We will make every effort to accommodate all of your questions within the hour we have scheduled today.

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 the call over to Jim Hallett.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Great, thank you, Eric, and good morning, ladies and gentlemen. Let me add my welcome as well.

First off, I want to say that I'm very pleased and very excited to report on a very strong second quarter by KAR Auction Services. Despite the continued tight supply on the whole car side of the business, we were able to grow our revenues by 7%, our adjusted EBITDA by 14%, taking us to $131 million of adjusted EBITDA for the quarter.

Speaking of the business units, I'll report first on Insurance Auto Auctions. Obviously, Insurance Auto Auctions had a very successful quarter. They were able to grow their revenues, able to grow their margins; as well as growing their EBITDA.

Their gross profit percentage for the quarter was in excess of 40%, and that was the second consecutive quarter that we've been over 40%. Adjusted EBITDA grew by 29%, and our margins for -- EBITDA margins improved to 32%.

And Insurance Auto Auctions was able to achieve this result despite a slight decline of less than 1% in volume. And we believe that 1%, or slightly less than 1%, to be very comparable to what's been going on in the market.

Proceeds continue to remain high. Something that we haven't talked to you about before, that we'll mention today, that we think is driving proceeds, is we have been implementing a number of buyer marketing initiatives in the salvage space. And we feel that these initiatives that we've put in place are starting to pay dividends. And we're seeing increased buyer attendance both online and in the physical auctions as well.

Obviously, again, strong used car values are continuing to drive the proceeds. And then the steel prices or commodity prices remaining stable are helping as well.

The thing that I would remind you of, and continue to remind you of, is we feel very convicted with the hybrid methodology that we use -- offering every car online as well as offering every car in a physical auction. There's no question that we feel the more eyeballs that we can put on vehicles, the more bids we receive, the higher values that we can drive.

In fact, to that point, Insurance Auto Auctions engaged a national firm to survey our salvage buyers. And they reported back to us that 73% of salvage buyers prefer to buy salvage vehicles in a hybrid auction versus an online-only auction. So this just serves to refocus our belief in our conviction to the hybrid methodology.

Another thing -- another project that we have on the go at IAA that we haven't spoken to you about previously is a program called the Vehicle Remarketing Division, or as we refer to it, as the VRD. And the VRD is Insurance Auto Auction working with our dealers on both the whole car side and the salvage side, combining our sales teams to work together to go after these low-end cars that dealers don't typically send to auction. These could be cars that are parked in the back line at the dealerships. They might need a push or a pull, or a drag or a boost -- but cars that dealers might not typically send to an auction.

[We're] been going after these vehicles, and we've been having some success. We've only rolled out the VRD program to about 25% of our auctions, and we look forward to continuing to roll it out. But we are feeling some traction in this area. And although it remains a small niche right now, we do think it's an area of the business that we can grow.

And then, just a final point I would make on Insurance Auto Auctions is in the quarter, we were able to add five new sites to the footprint -- two in Louisiana, then others in Alaska, Iowa and Georgia; which now takes the total footprint to 158 sites throughout North America.

Moving to AFC -- again, a very, very solid performance from AFC. Continued to see growth in floorings, revenue-per-transaction and average loan balance. Very favorable credit stats. We were over 99% current in the quarter, and we remain over 99% current as we speak today. Obviously, AFC has been the recipient of a very strong retail used car market. No question -- when you've got a hot market, dealers are able to sell their cars quickly, they're able to pay off their loans quickly, and return to auction; and do it all over again. And there's no question that the hot market has really helped drive the business at AFC.

But the other thing I would mention as well -- it hasn't been just the market at AFC. I think at AFC, we've had a very strong and disciplined management team. And I think that the medicine that we took in 2008 and 2009, when we deliberately lowered the portfolio in anticipation of creating capacity when the market came back, has served us well. And there's no question that the market has come back. We've had the capacity, and AFC has performed very strongly.

With that, I'll talk a little bit about ADESA -- I believe a very strong performance in the second quarter. Revenues were stable and margins were up versus a year ago. I'm very pleased with ADESA's performance, especially when you consider that the National Auto Auction Association reported that the industry is down approximately 7%, and ADESA's volume was down 3% in the quarter.

Taking a look at our dealer consignment initiatives -- our dealer consignment has now grown 6% through the first half of the year. And now dealer consignment represents 32% of our total business.

The one thing that I would feel obligated to report to you is that if some of the current trends continue, with some of the fleet lease volumes falling, we could see the industry dip below nine million vehicles for the first time in the last 10 or 12 years. And we're not sure how that will play out. We'll have to see how the second half goes. But there certainly was a softening of fleet lease in the first half of the year, and we're not sure if that trend's going to continue through the second half of the year or not. And we can talk more about that in Q&A.

But there's no question, we feel, that we continue to believe in the long-term growth in our dealer consignment. And we feel our dealer consignment initiatives will help offset any softening in some of the other segments.

And as well, I would report to you that our Internet sales went over 20% for the first time in any quarter in our history. So the Internet site of our business continues to grow.

And just as a final wrap-up on ADESA -- I'd like to just take a minute and maybe talk about three or four things [that] give you my outlook for the rest of the year on ADESA. Because this really seems to be the segment that's under the most pressure. And I want to talk a little bit more about dealer consignment, and acknowledge that dealer consignment has always been a little weaker segment for ADESA. And we've always been stronger on the commercial side of the business.

And to kind of put it in perspective for you -- although we don't release individual segments, think of it in terms of 70% commercial and 30% dealer. And we feel that these dealer initiative consignments that we've been telling you about for the last six months represent an opportunity to gain additional volume and really improve our overall performance across the entire Company.

And regardless of what's going on in other segments of the business, these dealer consignment initiatives need to be done. And although we're not doing them to offset anything, indeed, if some of the other segments do soften, we believe that they can help offset some of that softening. So this dealer consignment is just good business. It's something that perhaps we should've been focused on years ago. And we're just getting there now.

But if I can remind you -- we are up 6%, and I did say it represents 32% of our business. And I would ask you, as well as our people, just to give these initiatives a little bit of time and a little bit of patience. We are seeing some traction in this area. But really, it's been less than six months that we've started to roll out these initiatives, or just around six months. And in some cases, some of these rollouts are just getting completed now.

And I would characterize it as a third-a third-a third, where a third of our auctions were very early adopters, got the talent in place, got the best practices in place, and got this program rolled out. And we are seeing success with that third. Second third is probably just getting engaged now -- talent's in place, and we're just starting to crank up the initiatives now. And quite frankly, with the last third, I would say it's still very much in its infancy, and we have some work to do with that.

We have said in the past that we do not comment on specific wins and losses in the commercial business by customer. But I will tell you that we did have some wins in the second quarter of 2010 that we feel are just now transitioned. And we will get the full impact of those wins in the second half of the year.

As well, I think we got very good news this morning, with the report that the new car business was up 5% for the month of July, and the SAR is projected to be much closer to $12 million than $11 million that we were looking at in June. Obviously, this creates more new car sales; creates more used car trades, more auction transactions.

So when you take those factors, and you couple those with the favorable comps that we have in the second half of the year, I would say supply will remain tight. But I feel very optimistic that we can continue to perform. And I feel really good that we can continue to outgrow the market.

So with that, I'll turn to KAR on a consolidated basis, and remind you that we continue to see strong cash generation. Our Q2 cash balances [was] at $245 million, versus $165 million at the end of the first quarter. And we've been focused on continuing to reduce the net leverage of this company. At the time of the IPO, we were just a little over 4.6 times levered. At the end of the second quarter, we were down to 3.8 times. And I feel very much that we're on track to our commitment to be three times levered by the end of 2011.

From a guidance standpoint -- we started out the year giving you a range of $458 million to $465 million. At the end of the first quarter, we took you to the top of that range at $465 million. And now, I'm going to take you to approximately $470 million for 2010 -- $470 million of adjusted EBITDA -- and feel very confident that we can deliver this based upon the strength of our diverse business model, which I'm going to talk about a little bit more when -- after Eric gets through the financials.

So I'm going to turn it over to Eric. And he's going to walk you through the financials, and then I'll come back, and we'll get into Q&A. Eric?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Thank you, Jim.

Let me start by saying the results we released yesterday demonstrate the stability and strength of our business model. We have three segments of our business that perform differently in various economic environments.

As an example, the shortage of wholesale used cars at auction place a strain on ADESA performance, while at the same time creating situations in which IAA and AFC can prosper, with strong revenue, gross profit, and adjusted EBITDA growth year-over-year. And most importantly, with the strain of tight supplies impacting ADESA, that segment is still able to put forth stable revenues, improved gross profit, and a modest decline in adjusted EBITDA for the second quarter as compared to the prior year.

On a consolidated basis, our second quarter had revenues of $470 million, an increase of 7% from $439 million in 2009. Our gross profit grew $25.8 million, or 13.4% for the second quarter of 2010; as compared to the same period in the prior year. This contributes to adjusted EBITDA of $131 million for the second quarter of 2010, an increase of 14% over the same period in 2009.

In addition to our strong operating performance, we had an excellent quarter in generating available cash from our operations. Our available cash balance at June 30, 2010 was $245.5 million, up from $161.1 million at March 31, 2010.

Now let me comment on the performance of each segment. ADESA generated 280.8 -- I'm sorry, $280.1 million in revenue in the second quarter, essentially flat with the prior year. This was accomplished despite a 3% reduction in the number of vehicles sold in Q2 2010 as compared to Q2 2009 through increased revenue per vehicle sold.

A portion of this increase is attributable to a weaker US dollar in relation to the Canadian dollar. However, we also benefited from selected price increases put in place throughout ADESA auctions in the fourth quarter of 2009 and the first half of 2010.

I will also remind you that the second quarter of 2009 benefited from the sale of inventory that had accumulated in the fourth quarter of '08. By May 31st, 2009, however, our inventory levels have reduced to more normal levels. So the second half of 2010 will have less difficult comps than we were up against in the first half of this year.

Our gross profit as a percent of revenue in the second quarter of 2010 was 45.4%, consistent with the same period in 2009. Although our conversion rate of approximately 65% was below the prior year, this is still a strong performance, given the increase in the number of dealer consignment vehicles sold. Dealer consignment vehicles converted a lower rate than institutional vehicles, and the mix shift we experienced contributes to this reduction and conversion rate.

Now let me provide some color on the performance at AFC. Although unit volumes in the wholesale used car auction industry have declined year-over-year in the second quarter of 2010, the availability of capital from AFC to finance the floor plans of independent used car dealers has allowed this business segment to gain market share and grow the number of units floor planned and the number of loan transactions in the second quarter of 2010 as compared to the previous year.

Furthermore, the increase in the average loan value this year compared to last has improved the net spread earned on the portfolio. And lastly, the strong retail used car market in 2010 has contributed directly to the high credit quality and unprecedented low delinquency rates in our portfolio.

All of these factors have contributed to a 58% increase in net revenues for the second quarter of 2010 as compared to the prior year. Because most of the costs other than interest expense is fixed for AFC, you will see that the increased revenue flows right through to gross profit and operating income. And the increase of $8.8 million in adjusted EBITDA for the second quarter of 2010 as compared to the prior year is consistent with the increased revenue of $12 million, less the $1.8 million in interest expense, which is below operating income in 2010; and an additional $1 million in salary and bonus expense. AFC did not meet its bonus targets in 2009 and did not have any significant bonus expense in the second quarter of 2009.

I probably don't need to say much about IAA, as the numbers speak for themselves. This segment is clicking on all cylinders, to borrow an automotive term. We were able to grow revenues year-over-year in the second quarter by 13%, despite volumes sold declining slightly less than 1%. The strong proceeds or values paid for vehicles at auction directly correlate to increased revenue per vehicle sold. It is important to note that IAA achieved these results due to greater buyer participation and without any fee increases.

Most importantly, the strong revenue performance directly impacts our gross profit, as we were able to achieve 41.6% gross profit for Q2 2010 as compared to 37.9% for the prior year. This is especially powerful for IAA, as they achieved this higher gross profit percent on a significantly higher revenue base. This all leads to an increase in adjusted EBITDA to $50.3 million for the second quarter of 2010, compared to $39.3 million for the same period in the prior year.

And before you get concerned that SG&A at IAA is increasing, let me point out that the increase in the second quarter is primarily due to increased noncash stock compensation and some other nonrecurring expenses.

At the holding company, we had a decrease in SG&A. Approximately $4 million of this decrease is due to a reduction in stock-based compensation for our leadership team members that hold profit interest in the parent company of KAR. The decline in market value for our stock resulted in the credit against compensation expense in the quarter to reflect this reduced stock value.

Now let me turn to our liquidity. Our businesses are strong generators of cash, as evidenced by our growing available cash balance. Capital expenditures for the first six months of 2010 totaled $22 million. We continue to expect capital expenditures of about $75 million for the calendar year. However, we are a little behind our plan in spending the CapEx dollars. You can expect increased spending in technology as we look to the rest of the year.

Our primary measure of performance is adjusted EBITDA. We have generated $251.1 million of adjusted EBITDA in the first six months of 2010. As Jim mentioned, we're expecting adjusted EBITDA of approximately $470 million for 2010.

Our earnings per share for the second quarter of $0.21 is an increase from $0.12 for Q2 2009. For the first six months of 2010, earnings per share aggregated $0.27, compared to $0.09 in the prior year. Our expectation for calendar 2010 is for GAAP earnings per share of $0.40 to $0.45. As mentioned last quarter, we are expecting 2010 earnings per share to fall in the upper end of the range.

As we have previously mentioned, we believe an adjusted earnings per share is a better measure of our performance and valuation in comparison to our peers. Accordingly, we adjust GAAP earnings per share for the after-tax effect of LBO-related depreciation and amortization, stock-based compensation, and loss on early extinguishment of debt.

Our adjusted earnings per share for the first six months of 2010 was $0.57, compared to $0.32 for the prior year. Our expectation for calendar 2010 is for adjusted earnings per share of $0.92 to $0.97, an increase from our previous guidance of $0.90 to $0.95. We are expecting 2010 results to fall in the upper end of this range based on our first half performance and outlook for the remainder of the year.

Now let me return the call to Jim for a few final comments.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Okay, thank you, Eric.

And just before we go to Q&A, I thought I'd just take a minute and maybe expand on what I feel is the real value proposition with KAR Auction Services.

I think that -- at KAR that we're uniquely positioned to perform at high levels in almost all economic conditions. And the reason for that -- Eric's mentioned it, and I continue to mention it -- is the diversity of our business model.

And I think the best example of that is -- if you take the environment that we are currently in today, as we speak, we're seeing tight supplies on the whole car side of the business. And these tight supplies are resulting in very good performances for Insurance Auto Auctions. No question -- tight supplies drive used car prices higher. And as used car prices go higher, as we mentioned, they drive the proceeds for the IAA performance, and that serves them well.

But it also serves AFC very well as well. As Eric mentioned, as the average loan transaction goes up in price, then AFC is able to benefit from the cost of the inventory going up to higher prices and creating higher revenue per loan transaction.

On the other hand, when volumes come back, there's no question that we would expect that the proceeds at IAA and the average revenue per loan transaction at AFC would normalize somewhat. But this would also be a great growth opportunity for ADESA with the volume that would come back into the marketplace.

So when you think about our businesses, I really think about the diversity and the complementary nature of the business. And I think that's what truly differentiates KAR from our competitors.

And so with that, I just want to kind of close with those comments. And now I will turn it back to our operator, and we'll take Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Manav Patnaik, Barclays Capital.

Manav Patnaik - *Barclays Capital - Analyst*

Hi, good morning. Can you hear me?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good morning.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Hi, Manav.

Manav Patnaik - *Barclays Capital - Analyst*

Yes. Hi, how you guys doing?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good, thank you.

Manav Patnaik - *Barclays Capital - Analyst*

First, a quick question on the leasing volumes that you addressed, talking about the declines in the off-lease side. I was wondering if you could maybe provide a little more color in terms of what the size of that market is, at least in the industry. And what level, at least based on your forecast, do you see it sort of heading down towards; and maybe, if you can, a little color on what the sort of size is for your business?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Well, in terms of off-lease and the size in the industry -- there aren't a lot of numbers published. But it's typically 25% to 30% of the industry over the past several years would be a rough number, Manav.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. And --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

We track it differently. We track fleet lease and [cap to finance], and we split it up. But in general in the industry, I'd say 25% to 30%, and probably a little heavier in 2009 than that.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. And would that be consistent with sort of your own volume composition?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Generally, yes. Other than the fact that we're a little -- as Jim mentioned in his comments -- we're a little lighter in dealer consignment. So relative to institutional volumes, yes. Again, it might be slightly higher for us. Because again, commercial's a bigger component.

Manav Patnaik - *Barclays Capital - Analyst*

Okay.

And then, on the salvage pricing side -- I guess, if I gathered correctly from your comments, most of the pricing advantage came from the stable used car market, and the pricing -- or sort of better pricing, if you want to call it. And I was wondering, is there a breakdown on -- was that [most] the contribution? Or how much did, sort of, the favorable or stable commodity pricing have in that as well?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, there's several factors that go into it. There's no question the stable commodity prices are one piece of it. And I think that has helped. No question -- we talk about the increased prices.

But the other thing that I would focus on is I would focus on buyer attendance. And as I mentioned in my comments, we've taken on several initiatives that have really seen an increase in our buyer attendance in -- both online and in the physical auction.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. All right.

And just one final question, and I'll step out, is -- can you give a little commentary on -- should we be expecting -- like what sort of sequential trend should we be expecting going to the second quarter, generally speaking, on the volume front, if there is any?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, there are -- Manav, there are seasonal trends. The second quarter each year tends to be our strongest quarter, followed by the first, then the third; and then the fourth would be the lightest quarter in terms of seasonality in the business. And you can expect that every year. So --

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Manav Patnaik - *Barclays Capital - Analyst*

Okay, [sorry, not following] --

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Did that answer your question?

Manav Patnaik - *Barclays Capital - Analyst*

Yes, I mean, that's good enough. I'll touch base later.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Okay, thank you.

Operator

Matthew Fassler, Goldman Sachs.

Ryan Brinkman - *Goldman Sachs - Analyst*

Hi, this is actually Ryan Brinkman for Matt Fassler.

Regarding AFC -- are you able to comment on how much the revenue increase was a result of the decline in credit losses, as opposed to an increase, for example, in the average loan value? And then also, how much of the decline in credit losses should we think about [it] related to the loans that you previously held, as opposed to the loans sold, during the quarter?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, Ryan, let me speak to it. The credit losses -- when you get the Q, which will be filed either tonight or tomorrow -- are disclosed. And for the quarter, they were -- I'm pulling it out -- $3.6 million this year. And -- I'm sorry, $1.4 million. $3.6 million, I think, is year-to-date. And last year, they were about $4.7 million.

And when you get the Q out -- and we'll warn everybody -- the change in accounting has changed how we depict that. Now the provision for credit losses are shown in their entirety as a reduction in revenue. And it compares to a number of minus

$100,000 last year. That's only a component; the rest was netted into securitization income and other revenue lines, where now we show it separately. But the number was about $4.7 million. So that's that component.

The average loan balance increase contributes to the extent that it increases the amount of interest rate spread. But that still only represents about a third of the revenue stream, with two thirds being the fees. So Ryan, it is a contributor, and it helps us quite a bit. But it's not as significant as you might think. Because we still are getting two thirds from the origination curtailment, late fees, and those types of fee structures.

So I don't have a specific number to quantify it. But it would have increased that component that's one third. And it's probably up, rough numbers, in the area of about 10% year-over-year in terms of average loan balance.

Ryan Brinkman - *Goldman Sachs - Analyst*

Okay, great. Thanks for all that color.

Also, just one on ADESA, too -- it seemed like the revenue per car was up less this quarter on a year-over-year basis than last, despite an easier comp. How should we think about that trending as the year progresses, perhaps in relation to used vehicle prices potentially flattening sequentially as well?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Well, revenue per vehicle -- it was fairly flat with the prior quarter. Jim mentioned that we've had price increases earlier in the year; those are in place. And there hasn't been that much more activity recently. And I -- again, Jim, we are always looking at price; you might comment on that. But we think there probably will be less significant moves than we've had over the last several quarters.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes, I think that in the whole car business, we take a look at selective price increases by site, or by region or market. And I think the major price increases went in in the fourth quarter -- in the first quarter 2010. And I don't think in this current economic environment, with the focus on dealer consignment -- I don't think that there'll be any significant price increases coming from here through the end of the year.

Ryan Brinkman - *Goldman Sachs - Analyst*

Okay, great.

And then our last question, if I can, is -- you seem to have not paid down any long-term debt during the quarter, and instead are focusing on building cash. What is the thinking in terms of debt pay-down cadence as the year progresses?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, again, we will tell you, our priority is to de-lever. We're studying the components of our debt. We would love to be able to pay down the more expensive debt when we get that opportunity. And so we'll continue to evaluate it, and we'll keep you posted. We have not announced any repayment of debt as of this date. And we're studying it, and we'll do it as it makes sense.

Ryan Brinkman - *Goldman Sachs - Analyst*

Okay. Thanks a lot, guys.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Thank you.

Operator

Chris Ceraso, Credit Suisse.

Chris Ceraso - *Credit Suisse - Analyst*

Thanks, good morning.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good morning, Chris.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Morning, Chris.

Chris Ceraso - *Credit Suisse - Analyst*

It seems like the rental car business is looking to consolidate. Can you talk about your views on what sort of implications you think that might have for auction volume? And then, similarly, any update on efforts from Hertz or other rental car companies to do more of their own remarketing rather than use auctions?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes, Chris. I would say -- first off, I would say that we continue to see the rental car opportunity -- the rental car business as an opportunity. And that's a segment of our business that we continue to focus on and continue to grow. The consolidation, however it goes -- we don't really have an opinion on that. We have very good relationships with all the players in the rental car space.

And your final point about maybe the rental companies wanting to do more of their own remarketing or retail some of these cars direct -- we respect that initiative. And we understand what they're attempting to do. And I guess all we can be focused on is the cars that are available that come to auction. And we put salespeople and relationship people in place to go after that business and chase it harder. So we'll take what's left over.

Chris Ceraso - *Credit Suisse - Analyst*

But, I mean, I guess the point is, are you concerned that either of these initiatives or changes in the industry will result in fewer units coming to auction?

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Jim Hallett - *KAR Auction Services, Inc. - CEO*

No. Not actually a concern. We see it as -- we see it as an opportunity, quite frankly. We think we can grow the rental portion of our business with the customers. And we do not see it as a threat.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

And Chris, I'll remind you that a lot of those initiatives were announced when used car values were very low in 2009. With the strong used car values we're seeing now, it's a lot easier for the rental car companies to come to our auctions. Because they're getting the realization that they're pursuing without having to go through the effort and the expense of retailing. I'm not saying they won't still focus on alternative channels. But I think you have a different economic dynamic today than you had a year ago, relative to wholesale used car values.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. That makes some sense.

Do you have a number for directional quantification of how much off-lease volume was down year-over-year in the quarter?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

We don't discuss it at that level. But within the industry, again, you're seeing institutional volumes be down fairly significantly. So I mean, again, I think the relative magnitude was probably in the 10% range is -- again -- but I want you to know that directional, not an absolute number.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. And it sounded, from Jim's comments, like he thought maybe there was a chance that those declines might moderate. That sounds a little bit off to me. I would expect that it might even get worse from here, because the real falloff in lease originations didn't pick up steam until maybe later '08 and into '09. What's your thought on that?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. Well, I would think couple things. I would think number one is, as I said, that we had some very nice wins in the second quarter, in the commercial side of the business, that we feel will impact the second half of the year for ADESA.

And Eric, I think the -- you want to comment on --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Yes.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

-- the way some of these leases were written.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

We actually tracked -- and I've done this at some conferences, put the chart up -- lease originations in the first five months of 2007. We usually look on a three-year lag, Chris. And they were down below the percentages of lease originations at the end of '06. And they did increase in the second half of 2007. So again, we don't know how these off-lease volumes will come in. But there is reason to believe there will be more off-lease activity potentially in the second half as compared to the first half, based on the originations three years ago.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

And I think from a comp standpoint, I mentioned that gets more favorable for us in the second half of the year as well.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

That is right.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. So maybe you get a little recovery --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

(Inaudible) the permanent -- Chris, the permanent change you're expecting really ties into late '11. It follows that late 2008 and 2009 trend. So what we're seeing now --

Chris Ceraso - *Credit Suisse - Analyst*

That --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

-- is in advance of that.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. That's what I was thinking about. So this is a blip from weakness in early '07. Maybe it gets a little bit better, and then it gets worse again. So you have some ups and downs over the next couple of years there.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

That would be the trend in originations that we saw three years ago, yes.

Chris Ceraso - *Credit Suisse - Analyst*

Yes. Okay. Thank you very much.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

You're welcome.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - *Bank of America Merrill Lynch - Analyst*

Good morning, guys.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good morning, John.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Hi, John.

John Murphy - *Bank of America Merrill Lynch - Analyst*

On AFC, the $148 million per loan transaction was much higher than we were expecting. And I was just wondering if you could break down what part of that is actually fees, and if there was a fee increase where these other lenders were backing away, and you were able to take share, and actually maybe even increased pricing as other lenders were backing away from the market.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

No, John, that -- there was no fee increase put in place at AFC. And that's primarily driven by the growth in used car prices.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

So you get increased interest rate spread. There is an anomaly, John, that I'll point out to everyone -- that they've changed how we measure this. That $148 million, of course, is the straight math on the number of loans. There's $1.8 million of interest expense that is not netted against revenue right now. So --

John Murphy - *Bank of America Merrill Lynch - Analyst*

Got you.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

So let's take that out. And -- and I'm doing a little math here. That would take it down again to $140 million, which is a very strong performance. And again, we've given it to you before -- that you also benefit from a reduction in bad debt that again is netted up there. You don't see it all in the gross numbers in the Q that'll get released. But that's a reduction, again, that would be a little over -- almost $3.5 million on the number of loan transactions. So that's another $16. I mean, you're trying to walk through it.

John Murphy - *Bank of America Merrill Lynch - Analyst*

So as we think about that going forward, should we -- I mean, what's the -- I know this is a very tough thing to do on a number like this. What's the rough range? I mean, you sort of were running in the $120 million to $130 million range before. Is that a reasonable range to think about going forward?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Well, let's add roughly $16, because interest expense is no longer netted.

John Murphy - *Bank of America Merrill Lynch - Analyst*

Got you.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

And that would kind of right-size it.

John Murphy - *Bank of America Merrill Lynch - Analyst*

Got you. Got you.

And then, Jim, on the dealer initiatives -- I just wonder if you could remind us exactly what's going on -- what the actual initiatives are in the first third of the -- sort of the leading adopters in the auctions for you that are well ahead. And also, in that process, is there a real opportunity -- as new vehicle sales increase, there's more trade-ins -- these dealers will retail some of it, but then throw some of it into your auctions. And is that -- sort of that natural flow increases, there's a new opportunity to take share as you're launching these initiatives? Just trying to get a gauge of what exactly is going on there.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. And I think we're reported before, and I'll update -- that it was really a question of sitting down -- first of all, it's a question of bringing in talent. And we recruited in very strong experience, talent, in terms of a Vice President, Tim Zierden, who reports directly to our President, Tom Caruso. And Tim was -- got a very deep background in retail. And we were able to recruit Tim in.

And then, Tim then recruited in three regional managers. And we brought the group together, and we focused on, really, what were the best practices of dealer consignment. And we documented those best practices, and then we started rolling them out in various locations.

And the other thing that we focused on is we really focused on how we compensate our people on dealer consignment. And many of our compensation programs weren't aligned with what we were expecting them to do. And much of the talent was not totally focused on dealer consignment. They were doing dealer consignment along with many other things.

So we got the right talent in place, we got the right compensation programs in place. And then we got these best practices in place. And we kind of put together what we would call a basket of goods. And we went to the -- we went to the dealers. And we started training them, for example, on how to use our technology, how to buy online through LiveBlock, how to buy on our fixed site on DealerBlock, how to get access to AFC, understanding how to get access to the lanes; and just generally get a -- getting them very comfortable with the auction process. Because there's still -- as you well know, and we've mentioned many times -- there's still a lot of dealers that aren't really comfortable with the auction process.

And we then created what we call a -- through a marketing campaign, we've created a dealer avenue, where we've dedicated those lanes and those start times to dealers. And we were able to go to some of the large groups and transition some of their business in. But then we were able to go to the franchise dealers and start to get them to focus more on bringing those cars to auction, especially in light of the hot market that we're going. They've got a -- maybe they were hand-selling these cars, as we say; or they were wholesaling them. And we were showing them the -- we were showing them the market that the auction was providing versus maybe what they were wholesaling [them at] the door.

So as you go through all that -- I know that's rather windy, but as you go through that entire process, that's what we've been rolling out to the entire field. And we pretty much are -- have completed the rollout. But there's some that are -- basically the last third is just getting started now.

John Murphy - *Bank of America Merrill Lynch - Analyst*

That's very helpful.

Eric, just one last question -- two housekeeping issues here -- the interest expense was a little bit higher than we were looking for. You've paid down the $225.6 million of the senior sub 10 [percents] -- I think it was in January or February. And your cash --

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Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

January -- it was January 4th, John, so it was a (inaudible) --

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John Murphy - *Bank of America Merrill Lynch - Analyst*

Okay.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

-- quarter. And also, keep in mind -- the AFC interest expense is now below the line. That's the change.

John Murphy - *Bank of America Merrill Lynch - Analyst*

Got you, okay, that --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

And in the prior year, it is not. In the prior year -- and that's about $1.8 million for the quarter.

John Murphy - *Bank of America Merrill Lynch - Analyst*

That explains it.

And then, just the tax rate on a GAAP basis was 42%, a little bit higher than we were thinking. Where do you think that should be going forward, roughly?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Well, again, there's discrete items that will impact this through the year. And they impacted the first quarter. We have historically been a little bit above 40% on an effective rate basis. Because there's a portion of our stock comp for the profit interest that is not deductible for tax. So John, that throws it off. And even though we had a credit in the current quarter, the effective tax rate is calculated based upon our outlook for the full year. So that's what caused the -- you're going to see a little bit of discrepancy in this quarter, as, over the course of the year, the rate's about -- it runs at about 41% to 42% excluding discrete items which occurred in the first quarter -- and they may occur later in the year -- that would bring that rate down for the current financial reporting period.

John Murphy - *Bank of America Merrill Lynch - Analyst*

Great. Thank you very much.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

You're welcome.

Operator

Rick Nelson, Stephens, Incorporated.

Rick Nelson - *Stephens, Incorporated - Analyst*

I'm sorry. It's Rick Nelson here.

Unidentified Company Representative

Hi, Rick.

Rick Nelson - *Stephens, Incorporated - Analyst*

Like to ask you about the conversion ratio declining sequentially and year-over-year. I know you mentioned the mix of dealer consignment. If we could get a look, maybe, at the institutional business -- what's happening to conversion ratios and what you think the drivers are there? And then, on dealer consignment, what do conversion ratios look like?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. Overall, our conversion rate is running at, I think, about 65% compared to 68% a year ago. Typically, the commercial business converts at a much higher level. I think we've been through this before. But typically, the factory business converts in that 85% to 90% range. The fleet lease business converts in the 75% to 80% range. The dealer business historically converts in that -- has historically been in the 40% to 45% range. But we're now seeing that up in excess of 50% as we speak. So the commercial [may] be down a little bit, but the dealer is up.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

And Rick, I'll add some color. On the institutional side, we're down probably -- I mean, again, we don't give it to you in specific numbers -- we're down a couple of percent year-over-year. But that's because last year, they had this inventory that had been sitting on our lots for three, four months, that they were really pushing out the door at any price.

So last year, in the second quarter in particular, you had an extremely high rate. But again, we're consistent but just slightly below on the institutional side.

Rick Nelson - *Stephens, Incorporated - Analyst*

But you don't think these declining conversion ratios say anything about used car demand or resistance to the high price points for used cars?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

The moves are not meaningful enough for that to be the factor. I mean, we can all relate back to the fourth quarter of 2008, and I remember it very specifically -- Jim can, too -- where we were seeing conversion rates, across our stores, below 60%. That was a reaction to pricing and demand at the time, and we're not seeing anything like that.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. And I would say, Rick, as you even look at history, being at 65% across the board is above history. So I would say the conversion rates are continuing to be quite high. And I would just go back to Eric's point and say they got maybe a little super-inflated in the first half of '09 because of that buildup of the commercial inventory that we were selling off.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Got you. Thank you for that.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

You're welcome.

Rick Nelson - *Stephens, Incorporated - Analyst*

Also like to ask you about revenue per vehicle on the ADESA side -- I know was up 4%. Do you have an absolute number there?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

We only give you guidance. I mean, last quarter, we were -- we told you it was about $560,000 per vehicle. And it moved up just slightly above that, Rick.

Rick Nelson - *Stephens, Incorporated - Analyst*

Okay. And any comment on the ancillary services at ADESA? Are you seeing sellers come back to those services?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

A little bit. I would say that we're seeing -- and Eric, maybe you can comment on it -- but we're seeing a slight increase in the use of ancillary services.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Right. And in the second quarter, it was not a big contributor, although I will tell you in the latter part of the quarter, we were starting to see it. So we're optimistic that if the right mix of cars comes in and they use that, you'll start to see additional increases, although again, it's not enough quite yet for me to tell you we would up our numbers.

Rick Nelson - *Stephens, Incorporated - Analyst*

Thanks. If I could ask just one final one -- AFC, the provision for bad debts in the recent quarter relative to a year ago?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. Again, it's $1.4 million in the current quarter.

Rick Nelson - *Stephens, Incorporated - Analyst*

Okay.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

And it was $4.7 million a year ago. And when you get the Q -- again, when we file the Q tonight or tomorrow, I'll remind you that 2009, it's not disclosed in one line, like it is now disclosed in 2010. But it was $4.7 million last year for the second quarter.

Rick Nelson - *Stephens, Incorporated - Analyst*

Great. Thanks a lot, and good luck.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Thank you.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Thanks, Rick.

Operator

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research - Analyst*

Hey, good morning.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Good morning, Gary.

Gary Prestopino - *Barrington Research - Analyst*

Jim, when you mentioned your dealer cars, you said 32% of business. Is that revenues, or units?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

It's units.

Gary Prestopino - *Barrington Research - Analyst*

And what was that number -- what was that percentage last year, so we can kind of get some kind of a magnitude of the shift that we should be seeing?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. I'm looking here [as I get] -- but it was in that 25% -- 25%, 26% range.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Yes, let -- we'll give it to you, but I don't have that --

Gary Prestopino - *Barrington Research - Analyst*

Okay, well, that -- it's --

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

But I'll give it to you in a second, Gary.

Gary Prestopino - *Barrington Research - Analyst*

-- not exact, but it is a shift.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

[Right].

Gary Prestopino - *Barrington Research - Analyst*

And is it still a situation here where the revenue per vehicle, and actually the gross margin per vehicle on a dealer car, is higher than a commercial vehicle?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Yes. Well, we'd say --

Jim Hallett - *KAR Auction Services, Inc. - CEO*

(Inaudible)

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

-- as a percent, yes.

Gary Prestopino - *Barrington Research - Analyst*

Okay. That's fine.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

But in dollars, the commercial vehicles more likely [to] use ancillary service -- that is a lower margin, but it is a contributor on dollars. So you've got be careful, Gary, when we describe that.

Gary Prestopino - *Barrington Research - Analyst*

No, I understand.

And then, you mentioned some -- on the insurance auto side, some buyers' initiatives that you've put in place (inaudible) demand. Could you possibly maybe just -- very quickly just talk about some of the main ones?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes, I can, Gary. And I kind of walk through a list of things here. Number one, we put a buyer advisory board together to solicit input from our buyers in terms of what they want to see, in terms of our service offerings. We've done -- made some improvements in technology. We've introduced mobile technology and iPhone applications. And we've done some enhancements to our i-Bid-LIVE technology.

We've done -- we've split the marketing programs, or the marketing functions, between buyers and sellers at Insurance Auto Auctions -- a group that is focused entirely on buyers, and then another group that focuses on the seller relationships. We've actually had people on the ground in some of the global markets, not only working with -- not only working with some of these people in terms of soliciting them to become buyers, but also training them and teaching them how to use our technology.

I think we got our website now up to seven languages, including Chinese most recently. And then, we continue to expand a lot of our mailers and promotions, and things of that nature.

Eric, can you add to that?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

That seemed pretty good list to me.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Gary --

Gary Prestopino - *Barrington Research - Analyst*

That's enough, that's fine.

And then, lastly, on your new dealer preferred program that you have -- I realize it's only been rolled out for, say, a month or so -- but what's been the reception by the dealers to the program, particularly the 60-day buyback guarantee that you have out there? I mean, does anybody else in the industry have that?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I'm sure that it is available to others in the industry. I'm not sure to what extent any of them are using it. But the success that we're having is really -- it's really one call at a time, is one visit at a time. And I think it's taken the time to go and visit the dealer and to present them with all the services that are available -- in some cases, sit there and train them on the technology, as we said.

I think that Tim Zierden actually reported back to us at our last board meeting that the reception has been very good. And we're able to identify some very specific wins we've had on the dealer business as good examples of how this program is gaining traction, and how we can continue to further it through the rest of our rollout.

Gary Prestopino - *Barrington Research - Analyst*

And just really, in general, have you been having more success with the large storefront or multi-storefront dealer groups, versus maybe the one-sie-two-sies? Where has been the most success with your program so far?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I would say, in general, it's been with the franchise dealers. And that could be an independent franchise, the guy that owns one or two stores. But we also have somebody that is very focused on the national groups as well.

Gary Prestopino - *Barrington Research - Analyst*

Okay, thanks --

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Okay. You're very welcome.

Operator

Himanshu Patel, JPMorgan.

Himanshu Patel - *JPMorgan - Analyst*

Hi. Good morning, guys.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

Good morning.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good morning, Himanshu.

Himanshu Patel - *JPMorgan - Analyst*

You mentioned earlier ADESA volumes are down about 3%, and the industry was down 7%. I know you gave some color behind what's going on, in terms of the minuses and pluses. But can you just directionally talk about that spread for the balance of the year? Would you sort of continue to outperform the industry for the balance of the year?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I think I said in my comments that when we take a look at some of the wins that we've had on the commercial side, the impact that we'll have from the dealer consignment initiatives -- and hopefully the good news that we're going to have on the SAR -- I do remain very optimistic. And I think we will outperform the industry.

Himanshu Patel - *JPMorgan - Analyst*

Okay.

And then, guess, bigger-picture question -- can you give us just some sort of ballpark on sort of how much we should think about the industry being down maybe in the third quarter?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I guess -- it's difficult for us to predict what the industry might do. All we can really focus on is what's happened through the first half of the year. And through the first half of the year, it's 7%, and ADESA's at 3%. And we're not sure -- I guess, we're not sure if that represents a trend or not. But --

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Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

But what --

Jim Hallett - *KAR Auction Services, Inc. - CEO*

-- we want to caution you on it.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

What we can tell you, Himanshu, was the second half of 2009 was not as strong as the first half of 2009. So the comps will be easier. We do know that; that's factual.

Himanshu Patel - *JPMorgan - Analyst*

Yes, you mentioned that on your last call as well. That's kind of why I'm curious. I mean, could we -- could it be sort of flattish? I mean, is that even in the -- even in the zip code of possibility? Or maybe just down, but less down? Is that kind of, maybe, a more reasonable way --

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Jim Hallett - *KAR Auction Services, Inc. - CEO*

You know what, it's my understanding that NAAA is going to release some information on their outlook for the rest of the year in the next couple of weeks. Why don't we wait to let them announce it? Because it's just a guess.

Himanshu Patel - *JPMorgan - Analyst*

Okay, understood.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

And they've been studying the industry.

Himanshu Patel - *JPMorgan - Analyst*

You mentioned a little bit on used car prices earlier. And I'm just wondering, what are you -- what was kind of the data you're seeing on the ground, just inside of the last four weeks? There's been some softening in the economy. There's obviously been some sequential softening in the Manheim Index. Is the dataflow you're seeing on the field indicative of just kind of a moderation of used car prices? Or is there anything potentially more concerning developing there?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

No, I would say that -- recently, prices, I would say, have been somewhat flat, and perhaps even dropping back a slight bit.

Himanshu Patel - *JPMorgan - Analyst*

Okay. Thank you.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

You're welcome.

Operator

Tony Cristello, BBT Capital Markets.

Tony Cristello - *BB&T Capital Markets - Analyst*

Thank you. Good morning, gentlemen.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Good morning, Tony.

Tony Cristello - *BB&T Capital Markets - Analyst*

One question, talking about IAA -- and you alluded to the VRD program. Is there a way you can sort of quantify the number of vehicles that you think is in that subset that you're not trying to capitalize or go after currently, that would influence IAA volumes?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I don't think we would want to quantify at this point in time. As I mentioned, we've got it rolled out to 25%. It's a niche. It's an initiative that we're working on. It's an area that we think we can grow. But wouldn't feel comfortable trying to quantify what the opportunity is at this point.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

But Tony, we can tell you there's 12 million units that are not re-registered annually. Three million to four million are coming through the salvage auctions now. It's some subset of that eight million or so that aren't coming through, generally, the auctions.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. So it's an incremental opportunity that you're going after here?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP and CFO*

That is correct.

Tony Cristello - *BB&T Capital Markets - Analyst*

That's not a vehicle that you're already seeing. Okay.

And then second, if you think about sort of the volume at the salvage auction, sort of running at flattish -- and just part of it -- I guess, a big part of it is more macro-related. We've seen some improvement in miles driven. Is that enough to say that you could see some improvement in the second half of the year, if that were to be a sustainable trend?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I think -- I mean, miles driven increasing would result in more wrecks. And the question is, is that offset by the reduced number of insurance policies written, and the type of coverage people are carrying? It's hard to predict, Tony.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

But in terms of our outlook -- we're not expecting much different in the second half than we experienced in the first half.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. And I guess, on that -- I just want to understand a little bit how we should view Q4 of this year versus Q4 of last year that had a lot of volume related to Cash For Clunkers. And obviously, that will be a tough comparison in a volume standpoint. But in the sense of how we should think of it, either from a revenue-per-unit or revenue-per -- or cost-per-unit -- can you give me a little color in terms of just framework from that?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

The only color we'll give you is Cash For Clunkers did contribute some cars, but it wasn't meaningful enough for me to even pull it out. So we're not envisioning that having a big impact on our comps. It could have a small impact, but it wasn't that significant, Tony. The program as a whole was -- the numbers that came through salvage auctions wasn't that significant.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. So when we look at that big number that you had from a volume standpoint, increase in the fourth quarter last year, that was not directly tied to a Cash For Clunker flow-through?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Again, that will be a small element; there will be other factors. As you may recall, last year, we had some weather-related fall activity that probably kind of kick-started the fourth quarter and went into the next year.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. And then, one last question -- when you look at the guidance revision upward, is there any segment that you're seeing today -- I mean, obviously, IAA is performing well -- but that is outperforming more relative to your expectations, that is sort of generating this next sort of move-up in sort of guidance?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Tony, our guidance is on a consolidated basis. I think you see who's performing -- we see IAA and AFC performing very well. And the tightness in supplies we're anticipating will continue for the rest of the year, putting some pressure on ADESA. And I mean, that's about all we can say about it, on a segment basis.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. Very good, thank you.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

You're welcome.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

It looks we have time for one more question, [Mar].

Operator

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Thanks, guys, for taking my call.

You mentioned that you continue to see growth in the off-lease rental car business. Can you talk about an aggregate for getting any particular company, year-over-year growth in the rental car sector, of cars coming through auction?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

We don't talk about individual customers, Jordan. We think it's more of a macro trend -- that they're basically recovering from the bottom, where they weren't turning the vehicles in '08 and '09, and they were kind of struggling with going more at risk. So again, I can't think of anything I could comment on individual customers. So --

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Jordan Hymowitz - *Philadelphia Financial - Analyst*

No, I'm not asking you about the customers; I'm asking for the industry in aggregate for the rental car industry.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I mean, there's -- NAAA has put out some data that they believe it'll recover back to more normal levels, adding to the industry several hundred thousand vehicles. That's the only thing I've seen, Jordan, that would kind of quantify it for the industry. And that was NAAA.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay.

Do you get -- like you -- does the auction industry get like 90% of Dollar Thrifty's business now? Because they don't do anything except through auction, correct?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, again, Jordan, we don't comment on specific customers. All I can say is that all of the rental car companies use the auctions to some degree; some more so than others. And I guess I probably need to leave it there.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. But -- because Hertz just spoke. And there's a slide that says they're going from 87% to 61%, with a goal of getting towards 50%. And if they buy Dollar Thrifty, do you still think that the industry -- are you going to -- you'd have to gain share from Avis or from Enterprise in order to get positive growth as an industry. You see what I'm saying?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I understand what you're saying, Jordan. But that's strictly speculation at this point in time. And I really wouldn't want to speculate, other than to say we have a very good relationship with all the rental car sellers. And regardless of some of the dynamics that might take place with some of these mergers, we would feel good about them going either way.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

All right, thank you.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Okay. Thank you, Jordan.

Operator

And gentlemen, that concludes our Q&A session for today.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Okay. Well, I want to thank everybody for being on. I appreciate your time and your interest. And again, I would just conclude by saying that we feel very good about the quarter. We feel very good about the year-to-date. And again, repeating -- remain optimistic with the balance of the year, and look forward to delivering continued strong performance.

So thank you, and have a great day.

Operator

Ladies and gentlemen, that does conclude today's Conference. Once again, thank you for your participation.