

KAR Auction Services, Inc.
Form DEF 14A
April 12, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

KAR AUCTION SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

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13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

April 12, 2011

Dear Stockholder:

We cordially invite you to attend KAR Auction Services' annual meeting of stockholders. The meeting will be held on Thursday, May 12, 2011, at 10:00 a.m., Eastern Daylight Time, at the Conrad Indianapolis, 50 West Washington Street in Indianapolis, Indiana.

At the meeting, stockholders will vote on a number of important matters. Please take the time to carefully read each of the proposals described in the attached proxy statement.

Thank you for your support of KAR Auction Services.

Sincerely,

James P. Hallett

Chief Executive Officer

This proxy statement and the accompanying proxy card are being mailed to
KAR Auction Services' stockholders beginning on or about April 12, 2011.

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13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Date 10:00 a.m., Eastern Daylight Time, on May 12, 2011

Place Conrad Indianapolis
50 West Washington Street
Indianapolis, Indiana 46204

Items of Business *Proposal No. 1:* To elect thirteen directors to the Board of Directors.

Proposal No. 2: To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2011.

Proposal No. 3: To hold an advisory vote to approve the compensation of our named executive officers.

Proposal No. 4: To hold an advisory vote on the frequency of the stockholder vote to approve the compensation of our named executive officers.

To transact any other business as may properly come before the meeting or any adjournments or postponements thereof.

Record Date You are entitled to vote at the annual meeting and at any adjournments or postponements thereof if you were a stockholder at the close of business on Monday, March 14, 2011.

Voting by Proxy Please submit your proxy card as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on your enclosed proxy card.

On Behalf of the Board of Directors,

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April 12, 2011
Carmel, Indiana

Rebecca C. Polak
*Executive Vice President,
General Counsel and Secretary*

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KAR AUCTION SERVICES, INC.

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS

AND THE ANNUAL MEETING

Q: *Why am I receiving these materials?*

A: We are providing these proxy materials to you in connection with the solicitation, by the Board of Directors of KAR Auction Services, Inc. (the Company or KAR Auction Services), of proxies to be voted at the Company s 2011 annual meeting of stockholders and at any adjournments or postponements thereof. Stockholders are invited to attend the annual meeting to be held on May 12, 2011 beginning at 10:00 a.m., Eastern Daylight Time, at the Conrad Indianapolis, 50 West Washington Street, Indianapolis, Indiana 46204. Our proxy materials are being mailed to stockholders starting April 12, 2011.

Q: *What proposals will be voted on at the annual meeting?*

A: There are four proposals scheduled to be voted on at the annual meeting:

To elect thirteen directors to the Board of Directors;

To ratify the appointment of KPMG LLP (KPMG) as our independent registered public accounting firm for 2011;

To hold an advisory vote to approve the compensation of our named executive officers; and

To hold an advisory vote on the frequency of the stockholder vote to approve the compensation of our named executive officers.

Q: *What is the Board of Directors voting recommendation?*

A: The Company s Board of Directors recommends that you vote your shares:

FOR each of the nominees to the Board of Directors;

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FOR the ratification of the appointment of KPMG as our independent registered public accounting firm for 2011;

FOR the approval, on an advisory basis, of the compensation of our named executive officers; and

EVERY THREE YEARS on the frequency of the stockholder vote to approve the compensation of our named executive officers.

Q: *Who is entitled to vote?*

A: All shares owned by you as of the record date, which is the close of business on March 14, 2011, may be voted by you. You may cast one vote per share of common stock that you held on the record date.

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These shares include shares that are:

held directly in your name as the stockholder of record; and

held for you as the beneficial owner through a stockbroker, bank or other nominee, including shares purchased under the KAR Auction Services, Inc. Employee Stock Purchase Plan (the Employee Stock Purchase Plan).

On the record date, KAR Auction Services had approximately 135,678,680 shares of common stock issued and outstanding.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: Many of our stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with the Company's transfer agent, American Stock Transfer & Trust Company, LLC, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you directly by KAR Auction Services. As the stockholder of record, you have the right to grant your voting proxy directly to the Company or to vote in person at the annual meeting. KAR Auction Services has enclosed a proxy card for you to use. You may also vote on the Internet or by telephone, as described below under the heading How can I vote my shares without attending the annual meeting?

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to attend the annual meeting. You may vote these shares in person at the annual meeting only if you obtain a signed proxy from the record holder giving you the right to vote the shares. Your broker or nominee has enclosed a voting instruction card for you to use in directing your broker or nominee as to how to vote your shares. You may also vote by Internet or by telephone, as described below under How can I vote my shares without attending the annual meeting?

Q: How can I vote my shares in person at the annual meeting?

A: **Stockholder of Record.** Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to vote your shares in person at the annual meeting, please bring proof of identification. Even if you plan to attend the annual meeting, the Company recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting.

Beneficial Owner. Shares held in street name may be voted in person by you only if you obtain a legal proxy from the record holder giving you the right to vote the shares.

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Q: How can I vote my shares without attending the annual meeting?

A: Whether you hold your shares directly as the stockholder of record or beneficially in street name, you may direct your vote without ***attending*** the annual meeting by voting in one of the following manners:

Internet. Go to the website listed on your proxy card or voting instruction card and follow the instructions there. You will need the control number included on your proxy card or voting instruction form;

Telephone. Dial the number listed on your proxy card or your voting instruction form. You will need the control number included on your proxy card or voting instruction form; or

Mail. Complete and sign your proxy card or voting instruction card and mail it using the enclosed, pre-paid envelope.

If you vote on the Internet or by telephone, you do not need to return your proxy card or voting instruction card. Internet and telephone voting for stockholders will be available 24 hours a day, and will close at 11:59 p.m., Eastern Daylight Time, on May 11, 2011.

Q: If I am an employee holding shares pursuant to the Employee Stock Purchase Plan, how will my shares be voted?

A: Employees holding stock acquired through the Employee Stock Purchase Plan will receive a voting instruction card covering all shares held in their individual account from Computershare, the plan record keeper. The voting instruction cards have an earlier return date than proxy cards. The record keeper for the Employee Stock Purchase Plan will vote your shares (i) in accordance with the specific instructions on your returned voting instruction card; or (ii) in its discretion, if you return a signed voting instruction card with no specific voting instructions.

Q: What is the quorum requirement for the annual meeting?

A: A quorum is necessary to hold a valid meeting. A quorum exists if the holders of a majority of the Company's stock issued and outstanding and entitled to vote are present in person or represented by proxy. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker does not vote on some matter on the proxy card because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Q: What happens if I do not give specific voting instructions?

A: **Stockholder of Record.** If you are a stockholder of record and you:

Indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board of Directors; or

Sign and return a proxy card without giving specific voting instructions,

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then the proxy holders will vote your shares in the manner recommended by the Board of Directors on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual meeting.

Beneficial Owners. If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters such as the election of directors. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform the inspector of election that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a broker non-vote. Therefore, we urge you to give voting instructions to your broker. Shares represented by such broker non-votes will be counted in determining whether there is a quorum. Because broker non-votes are not considered entitled to vote, they will have no effect on the outcome other than reducing the number of shares present in person or by proxy and entitled to vote from which a majority is calculated.

Q: Which proposals are considered routine or non-routine ?

A: The ratification of the appointment of KPMG as our independent registered public accounting firm for 2011 (Proposal No. 2) is a matter considered routine under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal No. 2.

The election of directors (Proposal No. 1), the advisory vote to approve the compensation of our named executive officers (Proposal No. 3) and the advisory vote on the frequency of the stockholder vote to approve the compensation of our named executive officers (Proposal No. 4) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on Proposals No. 1, No. 3 and No. 4.

Q: What is the voting requirement to approve each of the proposals?

A: Thirteen directors have been nominated for election at the annual meeting. Directors will be elected by a plurality of the votes cast in the election of directors at the annual meeting, either in person or represented by properly authorized proxy. This means that the thirteen nominees who receive the largest number of FOR votes cast will be elected as directors. Stockholders cannot cumulate votes in the election of directors. Broker non-votes will not have any effect on the election of directors.

The ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of a majority of the votes represented at the meeting and entitled to vote on the proposal. In accordance with Delaware law, only votes cast for a matter constitute affirmative votes. A properly executed proxy marked abstain with respect to the ratification of the appointment of our independent registered public accounting firm will not be voted, although it will be counted for purposes of determining whether there is a quorum. Since abstentions will not be votes cast for the ratification of the appointment of our independent registered public accounting firm, they will have the same effect as negative votes or votes against that matter. Broker non-votes will have no effect on this item.

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The advisory vote to approve the compensation of our named executive officers requires the affirmative vote of a majority of the votes represented at the meeting and entitled to vote on the proposal. Similar to the vote to ratify the appointment of our independent registered public accounting firm, abstentions will also have the effect of a vote against approval of the compensation of our named executive officers. Broker non-votes will have no effect on this item.

For the advisory vote on the frequency of the stockholder vote to approve the compensation of our named executive officers every three (3) years, every two (2) years or every (1) year the alternative receiving the greatest number of votes will be the frequency that the stockholders recommend to the Board of Directors. Abstentions and broker non-votes will have no effect on this item.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Q: Who will count the vote?

A: A representative of American Stock Transfer & Trust Company, LLC will tabulate the votes and act as the inspector of election.

Q: Can I revoke my proxy or change my vote?

A: Yes. You may revoke your proxy or change your voting instructions at any time prior to the vote at the annual meeting by:

providing written notice to the Secretary of the Company;

delivering a valid, later-dated proxy or a later-dated vote on the Internet or by telephone; or

attending the annual meeting and voting in person.

Please note that your attendance at the annual meeting in person will not cause your previously granted proxy to be revoked unless you specifically so request. Shares held in street name may be voted in person by you at the annual meeting only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

Q: Who will bear the cost of soliciting votes for the annual meeting?

A: KAR Auction Services will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic and facsimile transmission by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares of KAR Auction Services common stock for their expenses in forwarding solicitation material to such beneficial owners.

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Q: I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

A: The Company has adopted a procedure called "householding" which the Securities and Exchange Commission (the "SEC") has approved. Under this procedure, the Company is delivering a single copy of this Proxy Statement and the Company's Annual Report to multiple stockholders who share the same address unless the Company has received contrary instructions from one or more of the shareholders. This procedure reduces the Company's printing costs, mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, a separate copy of this Proxy Statement and the Company's Annual Report will be promptly delivered to any stockholder at a shared address to which the Company delivered a single copy of any of these documents. To receive a separate copy of this Proxy Statement or the Company's Annual Report, stockholders may write or call the Company's transfer agent at the following address and telephone number: American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219 or 1-800-937-5449. Stockholders who hold shares in street name may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

Q: Can I access the Company's proxy materials and Annual Report electronically?

A: This Proxy Statement and the Company's Annual Report are available on our website at www.karauctionservices.com. Most stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. If you are a stockholder of record, you can choose this option and save the Company the cost of production and mailing these documents by registering for electronic access of future proxy statements at www.amstock.com. If you hold your KAR Auction Services stock through a bank, broker or other holder of record, you can choose this option and save the Company the cost of production and mailing these documents by registering for electronic access of future proxy statements at www.proxyvote.com.

If you choose to view future proxy statements and annual reports over the Internet, you will receive a notice next year containing the Internet address to access our Proxy Statement and Annual Report. The notice also will include instructions for voting over the Internet. You will have the opportunity to opt out at any time by following the instructions at the website addresses set forth above. Unless you subsequently elect to opt out, future notices will be available through Internet access. You do not have to re-elect Internet access each year.

Q: How can I obtain a copy of KAR Auction Services' Annual Report on Form 10-K?

A: Copies of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the SEC, are available to stockholders free of charge on KAR Auction Services' website at www.karauctionservices.com or by writing to KAR Auction Services, Inc. Investor Relations, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

Q: Where can I find the voting results of the annual meeting?

A: KAR Auction Services will announce preliminary voting results at the annual meeting and publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the annual meeting.

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PROPOSALS TO BE VOTED ON BY KAR AUCTION SERVICES STOCKHOLDERS

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Directors Elected Annually

KAR Auction Services' directors are elected each year by the stockholders at the annual meeting. We do not have a staggered or classified board. Thirteen directors will be elected at this year's annual meeting. Each director's term will last until the 2012 annual meeting of stockholders and until such director's successor is duly elected and qualified, or such director's earlier death, resignation or removal.

Board Nominations

KAR Holdings II, LLC (KAR LLC) controls a majority of the voting power of the Company's outstanding common stock. As a result, the Company does not have, and is not required to have, a majority of independent directors. The Company has three independent directors that serve on the Company's Audit Committee and the Board of Directors has determined that Robert M. Finlayson, Peter R. Formanek and Jonathan P. Ward meet the standards of independence established by the NYSE. In addition, seven of our directors are designated by KAR LLC pursuant to a director designation agreement. In connection with the Company's initial public offering, the Company entered into a director designation agreement that provides for the right of KAR LLC to directly nominate individuals to our Board of Directors. The director designation agreement provides that, for so long as KAR LLC owns more than 50% of our outstanding common stock, KAR LLC will have the right to nominate seven individuals to the Company's Board of Directors at each meeting of stockholders where directors are to be elected. KAR LLC's designees are as follows: David J. Ament, Thomas J. Carella, Michael B. Goldberg, Peter H. Kamin, Sanjeev K. Mehra, Church M. Moore and Greg P. Spivy.

Board candidates also are selected based upon various criteria including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board of Directors. Board members are expected to prepare for, attend and participate in all Board of Directors and applicable committee meetings, and the Company's annual meetings of stockholders.

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Information Regarding the Nominees for Election to the Board of Directors

The following information is furnished with respect to each nominee for election as a director. All of the nominees currently are directors. If a nominee is unavailable to serve as a director, your proxies may vote for another nominee proposed by the Board of Directors, or the Board of Directors may reduce the number of directors to be elected at the annual meeting. The ages of the nominees are as of the date of the annual meeting, May 12, 2011.

David J. Ament

Mr. Ament, 36, has been a member of the Board of Directors since April 2007.

Mr. Ament joined Parthenon Capital, a private equity firm, in 2003 and is a Managing Partner in its Boston office. Prior to joining Parthenon, he was a principal at Audax Group, a private equity firm, from 2001 to 2003. Prior to that, Mr. Ament was an investment professional at Apollo Advisors from 1997 to 2001. Mr. Ament serves on the Board of Directors of the following companies: AmWINS Group, Inc., Abeo, Inc., ASG Security, Bryant and Stratton College, TCS Holdings and Triad Isotopes, Inc.

Mr. Ament is qualified to serve on the Board of Directors because he is a sophisticated investor with significant experience in the private equity industry.

Thomas J. Carella

Mr. Carella, 36, has been a member of the Board of Directors since April 2007.

Mr. Carella is a Managing Director of Goldman, Sachs & Co. Mr. Carella joined Goldman Sachs in 1997 and rejoined in 2004 following his graduation from Harvard Business School. Mr. Carella serves on the Board of Directors of the following companies: Cequel Communications, LLC, Global Tel*Link LLC and HGI Global Holdings, Inc.

Mr. Carella is qualified to serve on the Board of Directors due to his significant experience in the financial sector and his business leadership experience.

Brian T. Clingen

Mr. Clingen, 51, has been the Chairman of the Board of Directors since April 2007. Mr. Clingen serves on our Compensation Committee.

Mr. Clingen served as our Chief Executive Officer between April 2007 and September 2009. Mr. Clingen has served as a Managing Partner of BP Capital Management since 1998. Established in 1998, BP Capital Management manages private equity investments principally in the service and finance sectors. Prior to founding BP Capital Management, Mr. Clingen was the Chief Financial Officer of Universal Outdoor between 1988 and 1996. Kelso & Company invested in Universal Outdoor in 1993. Mr. Clingen previously served as a director of Endo Pharmaceuticals Holdings Inc. from March 2003 to March 2006.

Mr. Clingen is qualified to serve on the Board of Directors because he has significant operational and investment experience, including in the automotive services industry.

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Michael B. Goldberg

Mr. Goldberg, 64, has been a member of the Board of Directors since October 2009.