ADESA INC
Form 424B4
June 17, 2004

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Filed Pursuant To Rule 424(b)(4)
Registration No. 333-113499

PROSPECTUS

6,250,000 Shares

Common Stock

This is our initial public offering of shares of our common stock. No public market currently exists for our common stock. The initial public offering price of the common stock is $24 per share.

Concurrently with this offering, we are offering $125 million aggregate principal amount of our $7^5/_8$% senior subordinated notes due 2012.

Our common stock has been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol "KAR."

Before buying any shares, you should read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Initial public offering price	$ 24.00	$ 150,000,000
Underwriting discounts and commissions	$ 1.68	$ 10,500,000
Proceeds, before expenses, to ADESA, Inc.	$ 22.32	$ 139,500,000

The underwriters may also purchase up to 937,500 shares of common stock from us at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus. The underwriters may exercise this option only to cover over-allotments, if any.

The underwriters are offering the common stock as set forth under "Underwriting." Delivery of the shares of common stock will be made on or about June 21, 2004.

UBS Investment Bank **Merrill Lynch & Co.**

Banc of America Securities LLC **Harris Nesbitt** **KeyBanc Capital Markets** **SunTrust Robinson Humphrey**

Barrington Research Associates, Inc. **Janney Montgomery Scott LLC** **Stifel, Nicolaus & Company Incorporated**

The date of this prospectus is June 16, 2004.

You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

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Summary

The following summary does not contain all the information that may be important to you and is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes thereto, included elsewhere in this prospectus. Except as otherwise indicated, "ADESA," the "Company," "we," "our" and "us" refer to ADESA, Inc. With respect to the descriptions of our business contained in this prospectus, such terms refer to ADESA, Inc. and its subsidiaries. "ALLETE" refers to our parent, ALLETE, Inc. "AFC" refers to our wholly-owned subsidiary, Automotive Finance Corporation and its subsidiaries.

GENERAL

ADESA is a leading, national provider of wholesale vehicle auctions and related vehicle redistribution services for the automotive industry in North America. We facilitate the exchange of used vehicles through an auction marketplace in which we earn fees from sellers and buyers. We generally do not take title to or ownership of the vehicles sold at our auctions. We are the second largest used vehicle auction network in North America, based upon the number of used vehicles passing through auctions annually. Through our wholly-owned subsidiary, AFC, we also provide short-term inventory-secured financing, known as floorplan financing, for used vehicle dealers.

We operate a network of 53 used vehicle auctions, 27 salvage auctions and 80 AFC loan production offices. Our used vehicle auctions provide a marketplace for sellers and buyers of used vehicles and services such as inbound and outbound logistics, reconditioning, vehicle inspection and certification and titling services. Vehicles available at our auctions include vehicles that have come off lease, repossessed vehicles, rental and other program fleet vehicles and vehicles from dealers turning their inventory. Our salvage auction network, the third largest in North America, facilitates the redistribution of damaged vehicles that are designated as total losses for insurance or business purposes as well as recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction, and also allows us to have a larger role in the entire vehicle redistribution industry.

COMPANY HISTORY

We entered the vehicle redistribution industry in 1989 and first became a public company in 1992. In 1994, we acquired AFC, our floorplan financing business. We remained a public company until 1996 when we became a wholly-owned subsidiary of ALLETE. At the time ALLETE became our parent, we operated 19 used vehicle auctions and 19 AFC loan production offices. Since then, our experienced management team has profitably grown and expanded our business, primarily through acquisitions, as well as organically, into a leading vehicle redistribution company in North America. Fifty-eight percent of our currently operating used vehicle auctions and 67% of our currently operating salvage auctions were acquired since we were purchased by ALLETE in 1996. Our annual combined used and salvage vehicle sales have increased from 0.6 million vehicles sold in 1996 to 2.0 million vehicles sold in 2003. In the same period, our net revenues from continuing operations grew consistently from $162.3 million to $911.9 million, representing a compound annual growth rate of 28%, with corresponding growth of net income from $4.0 million to $115.1 million.

INDUSTRY OVERVIEW

The vehicle redistribution industry encompasses the activities designed to transfer used and salvage vehicle ownership between sellers and buyers throughout the vehicle life cycle. In the United States and Canada in 2002, there were approximately 239 million vehicles in operation (also referred to as vehicle "parc"), approximately 221 million of which were located in the United States and 18 million of which were located in Canada. Approximately 18 to 19 million new vehicles (including medium and heavy trucks) enter the vehicle parc each year (based on 1999-2003 data) while annual vehicle scrappage is

approximately 13 to 15 million vehicles, resulting in a growth in the vehicle parc of approximately 3 to 6 million vehicles per year in the United States and Canada. The growth in vehicle parc each year is affected by several factors, including population growth (especially those of legal driving age), growth in the number of vehicles per household and the longer lifespan of vehicles currently on the road today. Of the 239 million vehicles in operation in 2002 in the United States and Canada, approximately 45 million used vehicles, or nearly 19% of the total parc, changed hands, representing the total opportunity available to used vehicle auctions, up from 40 million vehicles in 1990. According to estimates by the National Auto Auction Association (NAAA), approximately 21% of these vehicles pass through member auctions. As the vehicle parc has grown, the number of accidents has correspondingly risen as has the number of salvage vehicles. It is anticipated that the vehicle redistribution industry will continue to benefit from the increasing number of vehicles in operation, which should translate into increasing vehicle sales at auction.

COMPETITIVE STRENGTHS

We believe that the following key competitive strengths are critical to our continuing success:

- **Comprehensive offering of vehicle redistribution services.** We believe we offer a comprehensive range of services, which enable us to serve both sellers and buyers regardless of their size. The combination of our used and salvage vehicle auctions with our marketing and web-based services enables us to attract a large number of bidders, resulting in a higher sales rate for vehicles placed at auction for the first time, commonly referred to as the conversion rate, and higher sale prices for sellers of vehicles. The breadth of our geographic coverage, the number of our facilities and the comprehensiveness of our offerings at these facilities allow us to efficiently service our customers, regardless of the size and location of their vehicle portfolios.

- **Established relationships with diversified customer base.** We have established strong business relationships with selling dealers and institutional customers, such as vehicle manufacturers, insurers, financial institutions, rental agencies and fleet companies. Our network of regional facilities enables us to maintain and develop our relationships with local sellers and buyers while our national presence allows institutional customers to access buyers across the country and to redistribute their vehicles to markets where demand best matches their supply. Due to the diversity of our customer base, we do not have a major concentration of business with any one customer on either the seller or the buyer side of the auction process.

    - At our used vehicle auctions, strong relationships with institutional customers, including major domestic and foreign vehicle manufacturers, are key to our success, as they supply large quantities of late model vehicles.

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At our salvage auctions, we have strong relationships with most of the major insurance companies that write auto insurance coverage policies and supply salvage vehicles.

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Our floorplan financing business has approximately 12,000 eligible dealers and relies on repeat customers for much of its success.

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Consistency in quality services throughout our North American network. We are committed to providing our customers with superior and consistent customer service across all of our locations. We operate a network of vehicle redistribution facilities across North America. We offer our customers a convenient, hassle-free experience by providing a diverse, high-quality selection of vehicles, reputable auctions, efficient title processing, on-site value-added services and well-trained, friendly, service-oriented personnel.

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Commitment to information systems. Over the last five years, we have invested a significant portion of our annual capital expenditures in our information systems. We have developed and continue to improve proprietary systems for each of our businesses to meet our own operating needs as well as the needs of our customers. Our information systems provide sellers with valuable market data and enable us to better match our locations with their needs and our buyers with their

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product. We also believe that they will help us to achieve significant operating efficiency and provide consistency, stability and standardization, leading to cost reductions.

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Experienced management team. The five members of our senior management team have an average of six years of experience with us and 11 years in the auto industry and have successfully grown our company to become a leader in the vehicle redistribution industry. Our management team has accomplished this by implementing a disciplined strategy of selective acquisitions, increasing sales and profitability by site and opening new sites.

GROWTH STRATEGY

We are pursuing strategic initiatives that are designed to capitalize on our underlying business strengths, grow our business and improve our profitability. Key elements of our growth strategy include:

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Growing auction sales volume. We expect to grow our business by capitalizing on the increasing volume of vehicles redistributed annually and the rising number of vehicles sold at auction. The number of used vehicles sold at auction has increased each year since 1997, during a period that encompassed varying economic conditions. We believe that auctions are the best means of transferring ownership of used and salvage vehicles between sellers and buyers based on the short time-to-cash cycle our auctions offer to vehicle sellers, the range of services we provide, the low cost of our services as a percent of the gross market value of the vehicles placed at auction, and the relative transparency of the auction process. As a result, auctions offer a large and liquid market to customers resulting in true real time market prices. Of the estimated 45 million vehicles that changed hands in 2002, approximately 35.7 million of these vehicles were not distributed through NAAA-affiliated auctions, creating an opportunity for growth.

We expect that the volume of vehicles sold by dealers at auction will grow faster than the volume of vehicles sold by institutional customers at auction over the next several years. We believe we have an opportunity to generate more business from dealers by increasing the first-time conversion rates of their consignments and providing more attractive services and economics as compared to other redistribution channels.

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Optimizing revenues per vehicle sold. We plan to increase revenues by selling more services per vehicle, such as reconditioning, inspection, certification, titling and settlement administration services, and by implementing selective fee increases.

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Continuing to improve our operating efficiency. We are improving our operating efficiency by further centralizing certain administrative functions, optimizing and standardizing our redistribution processes, improving our use of technology and better utilizing our existing infrastructure. Our strategy for better leveraging our existing infrastructure includes efforts to increase the utilization rates of our auction facilities by organizing more auctions per facility, conducting auctions of trucks, boats and equipment and combining some of our used vehicle and salvage auction operations.

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Expanding into new markets. We seek continuing growth through various channels, including alternate auction venues, combination used vehicle and salvage auction sites, acquisitions of independent auctions and construction of new auctions or redevelopment of existing auction sites (referred to in the industry as "greenfield development"). Alternate auction venues include off-site satellite, on-line and customer site auctions, as well as alternate day, night or specialty product sales. In areas where we have existing operations, we seek to leverage upon existing infrastructure and capital investments in used vehicle operations by opening new salvage auction sites.

We have been an active consolidator in used vehicle auctions, which has fueled much of our historical growth. We continue to consider acquiring independent used vehicle auctions in markets where we do not have a presence. We also expect that consolidation opportunities will be available for salvage auctions.

Finally, in regions where we do not have a presence and are not able to identify acquisition sites or

where we do have a presence but our auction sites are inadequate or at capacity, we will consider greenfield development or relocation of auction sites.

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Growing on-line auctions and related services. We plan to continue to expand our existing on-line service offerings in addition to introducing new on-line services to our customers. We are committed to investing additional capital and resources for emerging technologies and service offerings in the vehicle redistribution industry. We will continue to tailor on-line services to each of our customers to include an appropriate mix of physical auctions and on-line services.

Our future growth depends on a variety of factors, including our ability to increase our volumes relative to our competition, acquire additional auctions, manage expansion, control costs in our operations, introduce modest fee increases and new services, consolidate future auction acquisitions into existing operations and retain our executive officers and key employees. In addition, our substantial indebtedness will require us to use a portion of our operating cash flow to pay interest and principal on debt instead of for other corporate purposes, including funding future expansion and ongoing capital expenditures. Accordingly, we cannot predict whether our growth strategy will be successful. We cannot predict what portion of overall sales will be conducted through on-line auctions or other redistribution methods in the future and what impact this may have on our auction facilities.

THE TRANSACTIONS

Prior to or concurrently with the completion of this offering, we intend to complete a series of related transactions, which include the following principal components:

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The offering of $125 million aggregate principal amount of our $7^5/_8$% senior subordinated notes due 2012.

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The replacement of our existing bank credit facility and the repayment of all borrowings thereunder, if any, with a new $525 million credit facility, including one or more term loan facilities aggregating $375 million and a $150 million revolving loan facility, which will likely remain undrawn initially.

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The repayment of $200.2 million of our outstanding debt owed to unaffiliated third parties.

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The repayment of an intercompany note owed to ALLETE, representing a $100 million dividend to ALLETE, which we paid on May 25, 2004.

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The repayment of all of our other outstanding intercompany debt owed to ALLETE and its subsidiaries, which totaled $144.6 million as of March 31, 2004.

We refer to this series of transactions as the "Transactions." For a further discussion of the Transactions, see "The transactions." For a further discussion of the dividend to ALLETE and our indebtedness, see "Management's discussion and analysis of financial condition and results of operations" and "Description of debt and other financial arrangements."

Relationship with ALLETE

ALLETE has announced that, following this offering, it intends to distribute its remaining equity interest in us to its shareholders. We refer to this transaction in this prospectus as the "spin-off" or "distribution."

We have conducted our used vehicle auction business since 1989, and since 1996 we have been wholly-owned by ALLETE. After this offering, ALLETE will continue to own at least 80% of the outstanding shares of our common stock through a wholly-owned subsidiary. Through its stock ownership, ALLETE will be able to control decisions regarding any merger, consolidation, sale of substantially all our assets or other major corporate transactions, without the support of any other stockholder.

While ALLETE expects the spin-off to occur within four months after this offering, it may not occur in that time period or at all. The spin-off will be subject to a number of conditions, including the receipt by ALLETE of a favorable tax opinion from its counsel that its distribution of our shares to its shareholders qualifies as a tax-free spin-off under Section 355 of the Internal Revenue Code and will be tax-free to ALLETE and its United States shareholders. The spin-off will also be subject to other closing conditions

and ALLETE may, in its sole discretion, change the terms of the spin-off or decide not to complete the spin-off.

ALLETE currently provides us with administrative and other similar services pursuant to an agreement, which we expect will terminate upon the completion of the spin-off. Prior to the completion of this offering, we will enter into agreements with ALLETE related to the separation of our business operations from ALLETE including, among others, a master separation agreement and a tax sharing agreement. We have entered or will enter into these agreements in the context of our relationship to ALLETE as a wholly-owned subsidiary. Accordingly, some of the terms and provisions of these agreements may be less favorable to us than terms and provisions we could have obtained in arm's length negotiations with unaffiliated third parties. For a further discussion of the spin-off and various interim and ongoing relationships between us and ALLETE, and the risks relating to our relationship with and separation from ALLETE, see "Certain relationships and related transactions Relationships between our company and ALLETE" and "Risk factors Risks relating to our relationship with and separation from ALLETE."

Benefits of the Spin-off

We believe that our spin-off from ALLETE will provide us with the opportunity to pursue our own strategy focused on the automotive business, expand our business and improve our operations. The benefits of the spin-off are described below.

- **Allow us to pursue a growth strategy.** As an independent company separate from ALLETE, we will be better able to pursue a business growth strategy. The spin-off will enable us to directly access the capital markets to issue debt or equity securities, as well as provide for independent coverage by analysts focused on our industry. As an independent company separate from ALLETE, we will be better positioned to pursue growth from acquisitions and greenfield development of used and salvage auctions. We may, however, be limited in our ability to issue shares of our common stock. For a discussion of these limitations, please see "Risk factors Risks relating to our relationship with and separation from ALLETE Our ability to issue stock may be limited for a period of time following the spin-off."

- **Greater strategic focus.** We expect to have a sharper focus on our business and strategic opportunities as a result of having our own board of directors that will focus exclusively on our business and pursue a leadership position in our industry. The spin-off will provide us a greater ability to focus our business strategies to better fit the needs of our business, and we expect to be able to deploy resources more efficiently and with more agility than as part of a combined organization conducting different businesses.

- **Closer alignment of employee compensation and stockholder interests.** The performance of our business depends on our ability to attract and retain qualified personnel. We expect the motivation of our employees and the focus of our management to be strengthened by incentive compensation programs tied to the financial results of our business and the market performance of our common stock. The spin-off will allow us to be able to offer compensation packages that more directly reflect the performance of our automotive business.

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Our regulatory environment will be simplified. As a subsidiary of ALLETE, which is subject to local and federal regulation as a utility company, our ability to grow and pursue a business strategy focused on our automotive business is adversely impacted, in contrast to our competition. Once separate from ALLETE, we will no longer be affected by its regulatory environment, and we can focus exclusively on our own business strategy and compete more effectively with our competition.

COMPANY INFORMATION

ADESA, Inc. was incorporated in Delaware on January 23, 2004. ADESA, Inc. is the successor by merger to ADESA Corporation, which was incorporated in Indiana on October 4, 1991. Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number at that address is 1-800-923-3725.

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The offering

Common stock we are offering	6,250,000 shares
Common stock to be outstanding after the offering	94,850,000 shares
New York Stock Exchange symbol	"KAR"
Use of proceeds after expenses	We estimate that the net proceeds to ADESA from the offering will be approximately $134.5 million. We expect to use these proceeds, as well as the proceeds from the Transactions, (1) to repay $200.2 million of our outstanding debt owed to unaffiliated third parties, (2) to pay accrued interest and principal on the $100 million intercompany note owed to ALLETE, (3) to repay all of our other outstanding intercompany debt owed to ALLETE and its subsidiaries, which totaled $144.6 million as of March 31, 2004 and (4) for general corporate purposes, including to repurchase ADESA shares from certain ALLETE employee benefit plans after the spin-off.
Dividend policy	We intend to pay a regular quarterly dividend of $0.075 per share to holders of our common stock.

The number of shares to be outstanding after this offering excludes:

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2,902,404 shares of common stock issuable upon the exercise of options, to be granted concurrently with the completion of this offering under the ADESA, Inc. 2004 Equity and Incentive Plan, at an exercise price of $24 per share;

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146,069 shares of common stock, to be granted as restricted stock under the ADESA, Inc. 2004 Equity and Incentive Plan, concurrently with the completion of this offering;

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5,451,527 shares of common stock reserved for future grants under the ADESA, Inc. 2004 Equity and Incentive Plan as of May 25, 2004;

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200,000 shares of common stock reserved for issuance under the ADESA, Inc. Director Compensation Plan; and

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500,000 shares of common stock reserved for issuance under the ADESA, Inc. Employee Stock Purchase Plan.

We are also offering, in a concurrent offering, $125 million aggregate principal amount of our $7^5/_8$% senior subordinated notes due 2012. For additional information relating to our notes, see the sections of this prospectus entitled "The transactions Notes offering" and "Description of debt and other financial arrangements Senior subordinated notes."

Except as otherwise indicated in this prospectus, we have presented the information in this prospectus on the assumption that the underwriters do not exercise their over-allotment option.

RISK FACTORS

You should carefully consider the information under the caption "Risk factors" and all other information in this prospectus before investing in our common stock.

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Summary historical financial and operating data

The following table summarizes financial data regarding our business and should be read in conjunction with the financial statements and notes thereto, as well as "Management's discussion and analysis of financial condition and results of operations."

Operating results of our vehicle transport and vehicle import businesses are included in discontinued operations and, accordingly, amounts have been adjusted for all periods presented. Due to major acquisitions in 2001 and 2000 involving the purchase of 26 used vehicle and 18 salvage auctions, information included below may not be comparable. Also, 2003 and 2002 operating results do not include goodwill amortization as required by Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

	For the three months ended March 31,		For the years ended December 31,				
Statement of operations data	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
	(dollars in thousands except as otherwise noted)						
Operating revenues							
Auctions and related services	$ 218,428	$ 205,501	$ 807,609	$ 732,487	$ 690,939	$ 441,539	$ 318,902
Dealer financing	28,909	25,987	104,323	99,889	95,087	77,818	61,269
Total operating revenues	247,337	231,488	911,932	832,376	786,026	519,357	380,171
Operating expenses (excluding depreciation and amortization)	179,990	175,241	673,808	624,811	586,918	387,424	284,130
Depreciation and amortization	9,251	7,998	35,310	32,703	42,229	25,933	17,371
Operating profit	58,096	48,249	202,814	174,862	156,879	106,000	78,670
Interest expense	3,988	4,602	15,996	22,492	38,639	26,056	12,985
Other income	(794)	(434)	(2,770)	(1,330)	(2,305)	(4,063)	(3,927)
Income from continuing operations, before tax	54,902	44,081	189,588	153,700	120,545	84,007	69,612
Income tax	21,602	17,488	74,830	59,879	44,234	34,303	29,374
Income from continuing operations	33,300	26,593	114,758	93,821	76,311	49,704	40,238
Discontinued operations		516	342	(5,521)	(8,911)	(1,273)	(338)
Net income	$ 33,300	$ 27,109	$ 115,100	$ 88,300	$ 67,400	$ 48,431	$ 39,900

Earnings per share data:	For the three months ended March 31,						
Basic and diluted earnings per share from							
Continuing operations	$ 0.38	$ 0.30	$ 1.30	$ 1.06	$ 0.86	$ 0.56	$ 0.45
Net income	$ 0.38	$ 0.31	$ 1.30	$ 1.00	$ 0.76	$ 0.55	$ 0.45
Weighted average shares outstanding basic and diluted (thousands)[a]	88,600	88,600	88,600	88,600	88,600	88,600	88,600
Pro forma earnings per share data:							
Basic and diluted earnings per share net income[b]	$ 0.32		$ 1.06				

Balance sheet data	As of March 31, 2004	2003	As of December 31, 2003	2002	2001	2000	1999
	(dollars in thousands except as otherwise noted)						
Working capital	$ 76,496	$ (56,632)	$ 56,740	$ (86,078)	$ (169,162)	$ (296,917)	$ 41,414
Total assets	$ 1,923,850	$ 1,628,491	$ 1,655,349	$ 1,490,074	$ 1,529,581	$ 1,352,331	$ 667,625
Total debt	$ 379,480	$ 391,295	$ 370,946	$ 409,694	$ 565,659	$ 601,322	$ 185,280
Total stockholder's equity	$ 964,740	$ 830,443	$ 950,200	$ 788,704	$ 660,451	$ 460,806	$ 336,833

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	For the three months ended March 31, 2004	2003	For the years ended December 31, 2003	2002	2001	2000	1999
	(dollars in thousands except as otherwise noted)						
Cash flow data:							
Net cash provided by operating activities	$ 13,554	$ (18,632)	$ 140,944	$ 181,698	$ 77,273	$ 97,528	$ 16,143
Net cash used by investing activities	$ (1,272)	$ (8,453)	$ (35,003)	$ (56,045)	$ (114,343)	$ (521,316)	$ (61,288)
Net cash (used by) provided by financing activities	$ 75,471	$ 52,450	$ (125,165)	$ (131,400)	$ 49,460	$ 485,525	$ 58,492
Other data:							
Operating profit to operating revenues	23.5%	20.8%	22.2%	21.0%	20.0%	20.4%	20.7%
EBITDA[c]	$ 68,141	$ 56,681	$ 240,894	$ 208,895	$ 201,413	$ 135,996	$ 99,968
EBITDA margin[c]	27.5%	24.5%	26.4%	25.1%	25.6%	26.2%	26.3%

	For the three months ended March 31,		For the years ended December 31,				
Selected operating data:							
Vehicles sold (thousands)	538	511	2,001	1,913	1,906	1,320	1,037
Revenue per vehicle sold[d]	$ 406.00	$ 402.15	$ 403.60	$ 382.90	$ 362.51	$ 334.50	$ 307.52
Loan transactions (thousands)	263	233	950	946	904	795	695
Revenue per loan transaction[d]	$ 109.92	$ 111.53	$ 109.81	$ 105.59	$ 105.18	$ 97.88	$ 88.16

	For the three months ended March 31,		For the years ended December 31,				
EBITDA	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
				(dollars in thousands)			
Net cash provided by operating activities	$ 13,554	$ (18,632)	$ 140,944	$ 181,698	$ 77,273	$ 97,528	$ 16,143
Changes in operating assets and liabilities, net of acquisitions	33,345	59,471	21,579	(41,696)	46,860	(16,275)	43,324
Bad debt expense	(1,208)	(2,886)	(3,385)	(6,278)	(7,258)	(2,848)	(7,367)
Gain (loss) on disposal of assets	(512)	(139)	2,764	(1,721)	(393)	(14)	921
Interest expense	3,988	4,602	15,996	22,492	38,639	26,056	12,985
Income tax expense	21,602	17,488	74,830	59,879	44,234	34,303	29,374
Deferred income tax	(2,628)	(2,707)	(11,492)	(8,222)	(103)	(4,027)	4,250
Discontinued operations (net of taxes)		(516)	(342)	5,521	8,911	1,273	338
Non-cash loss on discontinued operations				(2,778)	(6,750)		
EBITDA	$ 68,141	$ 56,681	$ 240,894	$ 208,895	$ 201,413	$ 135,996	$ 99,968

(a) Weighted average shares outstanding were 14,086 prior to the merger of ADESA, Inc. and ADESA Corporation on May 24, 2004. See Note 1 (Basis of Organization and Presentation) and Note 19 (Subsequent Event) in the Notes to Consolidated Financial Statements.

(b) Pro forma basic and diluted earnings per share assumes pro forma net income as calculated on the following page, as well as 94,850,000 shares outstanding, which includes 88,600,000 shares held by ALLETE and 6,250,000 shares issued in connection with the initial public offering. The number of pro forma shares outstanding does not include the repurchase of our common stock from certain ALLETE employee benefit plans after the spin-off or shares granted concurrently with this offering under the ADESA, Inc. 2004 Equity and Incentive Plan.

(c) While we believe that earnings before interest, income taxes, depreciation and amortization (EBITDA) is an important financial measure, it is not intended to represent cash flow for the period, is not presented as an alternative to operating income as an indicator to operating performance, and should not be, considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles (GAAP). We believe that EBITDA is a liquidity measure and a useful supplement to net cash provided by operating activities to assist management and to help investors understand our ability to generate cash flows from operations that are available for taxes, debt service and capital expenditures. EBITDA margin is calculated by taking EBITDA as a percentage of operating revenues. These measures may not be comparable to similarly titled measures reported by other companies. A reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to EBITDA for each of the fiscal periods indicated is presented above.

(d) Revenue per vehicle sold is derived by taking revenues for our auctions and related services segment divided by the number of vehicles sold. Revenue per vehicle sold does not include revenue for our dealer financing segment. Revenue per loan transaction is computed by taking revenues for our dealer financing segment divided by the number of loan transactions. These measures may not be comparable to similarly titled measures reported by other companies.

PRO FORMA FINANCIAL DATA

We expect that future results of operations will be different from historical operating results. Indicated below is certain pro forma data that adjusts the historical data for the expected increases in the costs of doing business as a separate registrant, assuming that such changes occurred at the beginning of each of the periods presented:

	Three months ended March 31, 2004			Year ended December 31, 2003		
	Actual (unaudited)	Adjustments (unaudited)	Pro forma (unaudited)	Actual	Adjustments (unaudited)	Pro forma (unaudited)
	(dollars in thousands)					
Operating revenues	$ 247,337	$ (244)[(a)]	$ 247,093	$ 911,932	$ (977)[(a)]	$ 910,955
Operating expenses						
Cost of services	121,914		121,914	475,294		475,294
Selling, general and administrative expenses	58,076	1,550[(b)]	59,626	198,514	11,000[(b)]	209,514
Depreciation and amortization expenses	9,251		9,251	35,310		35,310
Total operating expenses	189,241	1,550	190,791	709,118	11,000	720,118
Operating profit	58,096	(1,794)	56,302	202,814	(11,977)	190,837
Interest expense	3,988	3,312[(c)]	7,300	15,996	11,454[(c)]	27,450
Other income	(794)		(794)	(2,770)		(2,770)
Income from continuing operations, before income taxes	54,902	(5,106)	49,796	189,588	(23,431)	166,157
Income taxes	21,602	(2,012)[(d)]	19,590	74,830	(9,232)[(d)]	65,598
Income from continuing operations	33,300	(3,094)	30,206	114,758	(14,199)	100,559
Income from discontinued operations, net of income tax benefit				342		342
Net income[(e)]	$ 33,300	$ (3,094)	$ 30,206	$ 115,100	$ (14,199)	$ 100,901
Pro forma earnings per share data:						
Basic and diluted earnings per share net income[(e)]			$ 0.32			$ 1.06

(a)

Represents the estimated increase in the inherent interest rate of 31 basis points in the securitization structure utilized by AFC because we previously received a benefit from the credit rating of our parent company. The interest rate increase of 31 basis points was multiplied by the average loan balance sold of $315 million for the respective period to arrive at the amount of the adjustment. The amount would be accounted for as a reduction of gain on sale of finance receivables.

(b)

Includes estimated increases, associated with being an independent registrant that have been contractually established, related to the salaries and benefits of a full management team at an estimated cost of $5.4 million, professional fees at an estimated cost of $3.2 million and travel costs for the full management team of $2.4 million. These professional fees include board of directors fees, investor relation costs, incremental insurance costs and incremental treasury costs. We expect an additional annual increase of $4 million consisting of estimated legal costs of $1.5 million, estimated accounting fees of $1.1 million, estimated additional personnel costs of $0.9 million and estimated risk management costs of $0.5 million. Includes the estimated three month period ended March 31, 2004 increases, associated with being an independent registrant that have been contractually established, related to the salaries and benefits of a full management team at an estimated cost

of $0.65 million, professional fees at an estimated cost of $0.55 million and travel costs for the full management team of $0.35 million. These professional fees include board of directors fees, investor relation costs, incremental insurance costs and incremental treasury costs. We expect an additional increase for the three months of $1 million consisting of estimated professional costs of $0.8 million and estimated additional personnel costs of $0.2 million.

(c)

Includes estimated incremental interest expense that would result from the assumed repayment of all existing debt at the beginning of each period presented and the replacement of such debt with the proceeds of (1) the $125 million of senior subordinated debt included in this offering at an interest rate of 7 5/8%, (2) borrowings of $375 million under the new credit facility at an interest rate of 3.6%, (3) average borrowings of $75 million under the new revolving loan facility at an interest rate of 3.5% and (4) $9.1 million of debt issue costs that will be amortized over five years. Interest expense was calculated using a total weighted average interest rate of 4.5%.

A sensitivity analysis of the impact on our variable rate instruments to a 25 basis point change for the three months ended March 31, 2004 and the year ended December 31, 2003 would result in an additional adjustment to interest expense of $0.3 million and $1.1 million, respectively.

(d)

Tax benefit resulting from the incremental expenses at the applicable effective tax rate of 39.4%, which approximates the federal and state statutory tax rates.

(e)

Pro forma basic and diluted earnings per share assumes 94,850,000 shares outstanding, which includes 88,600,000 shares held by ALLETE and 6,250,000 shares issued in connection with our initial public offering. The number of pro forma shares outstanding does not include the repurchase of our common stock from certain ALLETE employee benefit plans after the spin-off or shares granted concurrently with our initial public offering under the ADESA, Inc. 2004 Equity and Incentive Plan.

Risk factors

You should carefully consider the risks described below together with all of the other information in this prospectus before you decide to invest in our common stock. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR COMMON STOCK

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public market.

Sales by us or our stockholders of a substantial number of shares of our common stock in the public market following this offering, or the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. Upon completion of this offering, there will be 94,850,000 shares of our common stock outstanding, or 95,787,500 shares if the underwriters exercise their over-allotment option in full. Of our outstanding shares, only the shares of our common stock sold in this offering will be freely transferable, except for any shares sold to our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended, which are subject to sale restrictions pursuant to the free riding and withholding restrictions of the NASD. The remaining shares will be "restricted securities" subject to the volume limitations and the other conditions of Rule 144.

Upon consummation of the spin-off, the trustees under ALLETE's employee stock ownership and pension plans will receive shares of our common stock in pro rata proportions to the ALLETE shares held by such plans. As a result of applicable legal requirements under the Internal Revenue Code of 1986, as amended, the trustee under ALLETE's employee stock ownership plan will be required to sell all of the shares of our common stock received by such plan and held in unallocated accounts as a result of the spin-off. Although ALLETE has requested an extension of the period of time to sell these shares, it may be necessary to dispose of these shares 90 days after their receipt. In addition, the trustee under ALLETE's pension plan may determine that a sale of its holdings of our common stock is appropriate pursuant to the fiduciary rules set forth under the Employee Retirement Income Security Act of 1974, as amended (ERISA). Although ALLETE intends to direct the trustees to sell us the shares of our common stock held by the plans following the spin-off, we have not yet reached an agreement with the trustees that would obligate them to consummate such a sale to us. We cannot assure you that we will reach an agreement with the trustees on acceptable terms. If we are not able to purchase these shares from the trustees, the trustees may be required to sell the plans' shares in the public market or to other parties. In that case, we may repurchase shares of our common stock in the public market. In addition, some ALLETE stockholders who receive our common stock in the spin-off, including utility mutual funds, may be required to or may choose to sell such shares in the public market. Any such sales of our common stock in the public market by the trustee or ALLETE's stockholders could result in a decline in the market price of common stock following the spin-off.

The price of our common stock may fluctuate substantially, which could negatively affect us and the holders of our common stock.

The trading price of our common stock may be volatile in response to a number of factors, many of which are beyond our control, including actual or anticipated variations in our quarterly financial results, changes in financial estimates for us by securities analysts and announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments. In addition, our financial results may be below the expectations of securities analysts and investors. If this were to occur, the market price of our common stock could decrease, perhaps significantly.

In addition, the United States securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may negatively affect the price of our common stock, regardless of our operating performance. You may not be able to sell your shares at or above the initial public offering price, or at all. Further, if we were to be the object of securities class action litigation as a result of volatility in our common stock price or for other reasons, it could result in substantial costs and diversion of our management's attention and resources, which could negatively affect our financial results.

Provisions of Delaware law, our certificate of incorporation and our by-laws could delay or prevent a change in control of our company, which could adversely impact the value of our common stock.

Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. Delaware law prohibits a publicly held corporation from engaging in a "business combination" with an "interested stockholder" for three years after the stockholder becomes an interested stockholder, unless the corporation's board of directors and stockholders approve the business combination in a prescribed manner. This provision in Delaware law could result in our current management becoming entrenched and therefore delay or prevent a change in control of our company, which could adversely affect the price of our common stock.

In addition, our certificate of incorporation and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

If our quarterly and annual revenues and operating results fluctuate significantly, the price of our common stock may be volatile.

Our revenues and operating results may in the future vary significantly from quarter to quarter and year to year. Quarterly and annual fluctuations may cause our common stock price to be volatile. We believe that a number of factors could cause these fluctuations including, but not limited to, the following:

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significant changes in volume of vehicles bought, sold or financed by our customers;

- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- the introduction by competitors of new services that make our services obsolete or less valuable;
- the announcement of new vehicle supply agreements by us or our competitors;
- fluctuations in the market value of used and salvage vehicles;
- the availability of used and salvage vehicles;
- changes in buyer attendance at vehicle auctions;
- the timing and size of our new facility openings;
- our ability to integrate and manage our acquisitions successfully;
- conditions in the automobile industry and the economy in general;
- variations in vehicle accident rates;
- changes in scrap metal prices;

- severity of weather and seasonality of weather patterns;
- delays or changes in state title processing;
- changes in state or federal laws or regulations affecting used or salvage vehicles or the floorplan financing of used vehicles;
- the availability and cost of general business insurance; and
- labor costs.

Due to the foregoing factors, our operating results in one or more future periods can be expected to fluctuate. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. In the event such fluctuations result in our financial performance being below the expectations of public market analysts and investors, the price of our common stock could decline substantially.

Below are our quarterly results for 2003 and 2002 for operating revenues and income from continuing operations:

	For the three months ended			
	March 31,	June 30,	September 30,	December 31,
	(in millions)			
2003				
Operating revenues	$ 231.5	$ 238.0	$ 224.5	$ 217.9
As a percentage of total operating revenues	25%	26%	25%	24%
Income from continuing operations	$ 26.6	$ 34.1	$ 29.2	$ 24.9
As a percentage of total income from continuing operations	23%	30%	25%	22%
2002				
Operating revenues	$ 207.9	$ 215.9	$ 208.7	$ 199.9
As a percentage of total operating revenues	25%	26%	25%	24%
Income from continuing operations	$ 24.9	$ 29.8	$ 24.3	$ 14.8
As a percentage of total income from continuing operations	26%	32%	26%	16%

The inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations and pay future dividends.

We are a holding company, and we have no operations. We rely primarily on dividends from our subsidiaries to meet our obligations for the payment of interest and principal on outstanding debt obligations, dividends to stockholders and corporate expenses. The inability of our subsidiaries to pay us dividends to meet our cash requirements could have a material adverse effect on our business. Our subsidiaries' ability to pay dividends to us depends upon their ongoing profitability and cash flows which can and may be affected by the factors described above under the heading " If our quarterly and annual revenues and operating results fluctuate significantly, the price of our common stock may be volatile." In addition, restrictions contained in financing agreements under which our existing or future subsidiaries finance their businesses may also limit their abilities to pay dividends to us. For example, AFC's revised securitization agreement contains provisions that, for up to one year, could increase the amounts we are required to reserve in the event the number of ineligible receivables increases above certain levels, which would reduce AFC's ability to pay dividends to us. In addition, an amendment to AFC's revised securitization agreement, which we expect will be in effect concurrently with the completion of this offering, will contain provisions that would restrict AFC's subsidiaries' ability to pay dividends to us in the event there is a financial covenant default under our new credit

facility. This restriction would remain in place for no longer than the later of 120 days following the date of the financial covenant default and 90 days following the AFC securitization purchasers' failure to waive the financial covenant default.

Restrictions and covenants in our debt and other financing agreements limit our ability to take certain actions and impose consequences in the event of failure to comply.

The indenture governing the notes and the agreements governing our other outstanding indebtedness contain, and AFC's revised securitization agreement will contain, a number of significant restrictions and covenants that limit our ability and our subsidiaries' ability, among other things, to:

> borrow money;

> use assets as security in other borrowings or transactions;

> pay dividends on stock or purchase stock;

> sell assets;

>

enter into certain transactions with affiliates; and

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make certain investments.

In addition, the new credit facility will contain financial covenants requiring us to maintain a total leverage ratio not to exceed 3.25 to 1.0, an interest coverage ratio of not less than 3.0 to 1.0 and a fixed charge coverage ratio of not less than 1.0 to 1.0. These financial covenants will affect our operating flexibility by, among other things, restricting our ability to incur expenses and indebtedness that could be used to grow our business, as well as to fund general corporate purposes.

Events beyond our control, such as prevailing economic conditions, changes in consumer demand and changes in the competitive environment, could impair our operating performance, which could affect our ability and that of our subsidiaries to comply with the terms of our debt and other financing agreements. We cannot assure you that we and our subsidiaries will be able to comply with the provisions of these agreements, including the financial covenants in the new credit facility. Breaching any of these covenants or restrictions or the failure to comply with our obligations after the lapse of any applicable grace periods could result in a default under the applicable debt agreements, including the new credit facility, and the proposed amendment to AFC's revised securitization agreement. If there were an event of default, holders of such defaulted debt could cause all amounts borrowed under these agreements to be due and payable immediately. We cannot assure you that our assets or cash flow or that of our subsidiaries would be sufficient to repay fully borrowings under the outstanding debt agreements, either upon maturity or if accelerated upon an event of default, or if we were required to repurchase the notes upon a change of control, that we would be able to refinance or restructure the payments on such debt. Further, if we are unable to repay, refinance or restructure our indebtedness under our new credit facility, the lenders could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt agreement could also result in an event of default under one or more of our other debt agreements, including the notes. See " The proceeds of this offering will not be available to grow our business; following the Transactions, we will have substantial debt obligations that could restrict our operations."

Investors in this offering will suffer immediate and substantial dilution.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock. Purchasers of our common stock in this offering will experience immediate and substantial dilution in the net tangible book value of $19.33 per share of common stock. Our issuance of options subsequent to this offering will cause investors to experience further dilution if the market price of our common stock exceeds the exercise price of these securities.

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There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell the shares you purchase.

Although we have applied for listing of our common stock on the New York Stock Exchange, we cannot assure you that an active trading market for our shares will develop or be sustained after this offering. In addition, since only approximately 6.6% (or approximately 7.5% if the underwriters exercise their over-allotment option in full) of our common stock will be sold in this offering, the market for our stock may be illiquid. An illiquid market for our common stock may result in volatility and poor execution of buy and sell orders for investors. The initial public offering price for our shares will be determined by negotiations among the underwriters, ALLETE and us. We cannot assure you that the initial public offering price will correspond to the price at which our shares will trade in the public market subsequent to this offering or that the price of our shares available in the public market will reflect our actual financial performance.

RISKS RELATING TO OUR RELATIONSHIP WITH AND SEPARATION FROM ALLETE

As long as ALLETE owns a majority of our common stock, our other stockholders will be unable to affect the outcome of stockholder voting.

After the completion of our initial public offering, ALLETE will beneficially own approximately 93.4% (or approximately 92.5% if the underwriters exercise their over-allotment option in full) of the outstanding shares of our common stock through a wholly-owned subsidiary. As long as ALLETE owns a majority of our common stock, our other stockholders will generally be unable to affect or change the management or the direction of our company without ALLETE's support. As a result, some investors may be unwilling to purchase our common stock. If the demand for our common stock is reduced because of ALLETE's control of our company, the price of our common stock could be materially depressed.

As long as ALLETE owns a majority of our outstanding common stock, ALLETE will continue to be able to elect and remove our entire board of directors and, generally, to determine the outcome of all corporate actions requiring stockholder approval. ALLETE's interests may differ from or conflict with the interests of our other stockholders. In addition, subject to applicable law, ALLETE will be in a position to control all matters affecting our company, including:

> our general corporate direction and policies;

> amendments to our certificate of incorporation and bylaws;

> acquisitions, sales of our assets, mergers or similar transactions, including transactions involving a change of control;

> future issuances of common stock or other securities;

> the incurrence of debt by us;

> the payment of dividends on our common stock; and

> compensation and stock option policy decisions.

Our directors may have conflicts of interest because they are also directors of ALLETE, and our directors, executive officers and employees own ALLETE stock or options to purchase ALLETE stock.

Our chairman and chief executive officer, a former executive officer of ALLETE, will continue to be a member of ALLETE's board of directors at the time that we complete this offering. Moreover, we expect that until the spin-off, a majority of the members of our board of directors will be individuals who are directors of ALLETE. Our directors who are also directors of ALLETE will have obligations to both companies and may have conflicts of interest with respect to matters involving or affecting us.

After this offering, a number of our directors, executive officers and other employees will continue to own ALLETE stock and options to purchase ALLETE stock they acquired as employees of ALLETE. These ownership interests could create, or appear to create, potential conflicts of interest when these directors, executive officers and other employees are faced with decisions that could have different implications for our company and ALLETE.

The new agreements we are entering into with ALLETE in connection with this offering could restrict our operations.

Prior to the completion of this offering, we and ALLETE will have entered into a number of agreements governing our separation from and our future relationship with ALLETE, including a master separation agreement, in the context of our relationship to ALLETE as a wholly-owned subsidiary, and, accordingly, the terms and provisions of these agreements may be less favorable to us than terms and provisions we could have obtained in arm's length negotiations with unaffiliated third parties. Pursuant to these agreements with ALLETE, we will have agreed to take actions, observe commitments and accept terms and conditions that are or may be advantageous to ALLETE but are, or may be, disadvantageous to us. The terms of these agreements will include obligations and restrictive provisions, including, but not limited to:

> an agreement to indemnify ALLETE, its affiliates, and each of their respective directors, officers, employees, agents and representatives from all liabilities that arise from our breach of, or performance under the agreements we are entering into with ALLETE in connection with the separation and for any of our liabilities;

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an agreement to indemnify ALLETE for certain tax liabilities and for certain actions or events which, if the spin-off occurs, cause the spin-off to be taxable to ALLETE and/or its stockholders; and

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an agreement that we will not change our accounting principles for periods in which our financial results are included in ALLETE's consolidated financial statements, unless we are required to do so to comply, in all material respects, with generally accepted accounting principles and SEC requirements. We will also agree to use ALLETE's auditors, use reasonable efforts to have our annual audit completed on the same date as ALLETE's annual audit and provide information and access to ALLETE and its auditors.

For a further discussion of our agreements with ALLETE, see "Certain relationships and related transactions Relationships between our company and ALLETE Agreements between us and ALLETE."

We may be required to indemnify ALLETE if the spin-off becomes taxable.

We and ALLETE will enter into a tax sharing agreement, effective on the date of the spin-off, which governs ALLETE's and our respective rights, responsibilities and obligations after the spin-off with respect to taxes for the periods ending on or before the spin-off. Under the tax sharing agreement, if the spin-off becomes taxable to ALLETE, we will be required to indemnify ALLETE for any taxes which arise as a result of our actions or inaction. In addition, we will be required to indemnify ALLETE for 50% of any taxes that do not arise as a result of actions or inaction of either us or ALLETE. Any indemnification payment which we are required to make under the tax sharing agreement could have a material adverse effect on our financial condition and results of operations. For a further discussion of our tax sharing agreement, see "Certain relationships and related transactions Relationships between our company and ALLETE Agreements between us and ALLETE Agreements relating to our separation from ALLETE Tax sharing agreement."

We face risks associated with being a member of ALLETE's consolidated group for federal income tax purposes and its controlled group for pension plan liability purposes.

For so long as ALLETE continues to own at least 80% of the voting power and value of our capital stock, we will be included in ALLETE's consolidated group for federal income tax purposes. Under our existing tax sharing agreement, we generally will pay ALLETE the amount of federal, state and local income taxes that we would be required to pay to the relevant taxing authorities if we were a separate taxpayer not included in ALLETE's consolidated or combined returns. In addition, by virtue of its controlling ownership and the existing tax sharing agreement, ALLETE will effectively control substantially all of our tax decisions and will have sole authority to respond to and conduct all tax proceedings, including tax audits relating to ALLETE's consolidated or combined income tax returns in which we are included. Moreover, notwithstanding the existing tax sharing agreement, federal law provides that each member of a consolidated group has several liability for the group's entire tax obligation. Thus, if ALLETE or other members of the group fail to pay taxes attributable to any period during which we are a member of ALLETE's consolidated group, including the current taxable year of ALLETE that ends on December 31, 2004, or if the spin-off becomes taxable as a result of ALLETE's actions or inactions and ALLETE does not satisfy the resulting tax liabilities for any reason, as required by law, notwithstanding the existing tax sharing agreement, we may be liable for any part of, including the whole amount of, such liabilities. Similar principles apply for state income tax purposes in many states. For a further discussion of these tax issues, see "Certain relationships and related transactions Relationships between our company and ALLETE."

In addition, for so long as ALLETE continues to own at least 80% of the voting power or value of our capital stock, we will be included in ALLETE's controlled group for pension plan liability purposes. As a result, if ALLETE fails to make required contributions to one or more of its pension plans or one or more of its pension plans are terminated at a time when we are at least 80% owned by ALLETE, we will be jointly and severally liable with ALLETE for any unpaid required pension contributions or any funding shortfall upon plan termination.

Our ability to issue stock may be limited for a period of time following the spin-off.

After the completion of our initial public offering, we will be limited in the amount of stock that we can issue because of potential adverse tax consequences. In order for the spin-off to be tax-free to ALLETE and its stockholders, ALLETE must distribute "control" of ADESA, as defined in Section 368(c) of the Internal Revenue Code. Under Section 368(c), "control" means ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote for the election and removal of directors and at least 80% of the total number of shares of each other class of nonvoting stock. Because we will have only voting stock outstanding, ALLETE must distribute stock representing at least 80% of the combined voting power of our common stock for the election and removal of directors to satisfy the Section 368(c) control test. If the over-allotment option granted by us is exercised in full, we will have issued or transferred stock representing approximately 7.5% of our voting power in the offering. Thus, before the spin-off we may issue only a limited amount of our stock in acquisitions without violating the Section 368(c) "control" test.

Additionally, under Section 355(e) of the Internal Revenue Code, ALLETE will recognize taxable gain on the spin-off if there are one or more acquisitions of our stock representing 50% or more of our stock, measured by vote or value, and the stock acquisitions are part of a plan or series of related transactions that includes the spin-off. The shares issued in the offering will be considered to be part of a plan that includes the spin-off. In addition, any other shares of our common stock acquired within two years before or after the spin-off are presumed to be part of such a plan unless we can rebut that presumption. Thus, ALLETE will recognize taxable gain on the spin-off if the shares issued in the offering, together with any shares we issue to make acquisitions that are considered part of a

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plan that includes the spin-off, represent 50% or more, measured by vote or value, of our common stock outstanding after completion of the offering and such acquisitions. Consequently, to avoid causing the spin-off to be taxable to ALLETE under Section 355(e), we may be significantly limited in our ability to issue our shares for the two year period following the spin-off. If issuance of our stock causes the spin-off to be taxable to ALLETE under Section 355(e), we would be required to indemnify ALLETE against that tax under our tax sharing agreement with ALLETE.

If ALLETE does not complete the spin-off, we will continue to be controlled by ALLETE.

While ALLETE expects the spin-off to occur within four months after this offering, it may not occur in that time period or at all and ALLETE may, in its sole discretion, change the terms of the spin-off or decide not to complete the spin-off. The spin-off will be subject to a number of conditions, including the receipt by ALLETE of a favorable tax opinion from its counsel that ALLETE's distribution of its shares of ADESA to ALLETE stockholders qualifies as a tax-free spin-off under Section 355 of the Internal Revenue Code and will be tax-free to ALLETE and its United States stockholders. If ALLETE does not receive a favorable tax opinion, it is not likely to make the distribution in the expected time frame or at all. In addition, until this distribution occurs, the risks discussed above relating to ALLETE's control of us, our directors' conflicts of interest, and the potential business conflicts of interest between ALLETE and us will continue to be relevant to our stockholders.

If ALLETE completes the spin-off, the spin-off may be subject to review by a court under federal bankruptcy law or comparable provisions of state fraudulent transfer law.

In general, if ALLETE completes the spin-off of its remaining shares of our common stock and a court or other trier of fact were to find that at the time of, or as a result of, the spin-off, ALLETE:

> was or was rendered insolvent;

> was engaged in a business or transaction for which ALLETE's remaining assets constituted unreasonably small capital; or

> intended to incur or believed it would incur debts beyond its ability to pay as such debts matured,

the court, subject to applicable statutes of limitations, could determine to avoid the spin-off, in whole or in part, as a fraudulent transfer or conveyance. The definition or measure of such matters as insolvency or unreasonably small capital for purposes of a court's analysis will vary depending on the law of the jurisdiction which is being applied. Generally, however, ALLETE would be considered insolvent if, at the time of or as a result of the spin-off, either the fair value of its liabilities exceeded its assets, or the present or fair saleable value of its assets was less than the amount required to pay its probable liability on its existing total debts and liabilities (including contingent liabilities) as they became absolute and matured. Although ALLETE has advised us that it does not believe that it will be insolvent or have unreasonably small capital at the time of, or as a result of, the spin-off, if the spin-off were avoided as a fraudulent transfer or conveyance or for any other reason, we would continue to be controlled by ALLETE. In that case, the risks discussed above relating to ALLETE's control of us, our directors' conflicts of interest, and the potential business conflicts of interest between ALLETE and us would continue to be relevant to our stockholders.

RISKS RELATED TO OUR BUSINESS

The cyclical nature of vehicle sales may adversely affect our profitability.

The vehicle industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions and consumer confidence, fuel prices, the level of discretionary personal income, unemployment rates,

interest rates, credit availability and insurance premiums. If the volume of used or salvage vehicles sold at our auctions were to decline, the revenue we earn from successful auction transactions and ancillary services would decline. In addition, the fixed costs associated with our auction facilities would remain relatively constant. As a result of these consequences, our profitability could be adversely affected.

Dealer incentives for new vehicle purchases can depress used vehicle values.

New and used vehicle sales substantially slowed immediately following the terrorist attacks of September 11, 2001. In response, manufacturers introduced new incentives (including 0% financing) and rental car companies began to downsize their inventories. This led to decreases in the prices of both used and salvage vehicles and a temporary decline in conversion percentages in the auction industry because the prices that buyers were willing to pay for vehicles did not match the prices that sellers were willing to accept.

In 2002, the manufacturers extended and increased the incentives leading to additional declines in both used vehicle prices and conversion percentages. We are not able to determine the long-term consequences the terrorist attacks and/or subsequent outbreaks of hostilities might have on general economic conditions, our industry, or us, nor are we able to predict how used vehicle prices and conversion percentages, and consequently our profitability, may be affected by new and additional incentives or other changes by the manufacturers aimed at the new car market.

Fluctuations in consumer demand between used and leased vehicles impact auction sales volume and conversion rates, which may adversely affect our profitability.

Used vehicle sales are driven by consumer demand. As consumer demand fluctuates, the volume and prices of used vehicles may be affected and the demand for used vehicles at auction by dealers may likewise be affected. The demand for used vehicles at auction by dealers may therefore have an effect on the wholesale price of used vehicles and the conversion percentage of vehicles sold at auction.

The number of new and used vehicles that are leased by consumers affects the supply of vehicles coming to auction. As manufacturers and other lenders have decreased the number of leases in the last few years and extended the lease terms of some of the leases that were written, the number of off-lease vehicles available at auction declined in 2003 and that decline is expected to continue in 2004 and 2005. We are not able to predict the manufacturers' and other lenders' approaches to leasing and thus future volumes of off-lease vehicles may be affected based upon leasing trends. If the volume of off-lease vehicles sold at auctions were to decline, our profitability could be adversely affected.

Reductions in supply of vehicles from institutional sellers can reduce the volume of vehicles passing through our auctions and our results of operations.

Program vehicles are vehicles used by institutional sellers such as rental car companies and other companies with individual corporate fleets of vehicles that are returned to manufacturers through repurchasing programs. The volume of program vehicles and the terms of the programs have an effect on the volume of used vehicles available for sale at auction since the majority of these vehicles are redistributed via the used vehicle auction process.

Repossessed vehicles are an additional source of volume for used vehicle auctions and are dependent upon both economic conditions and the policies of lenders regarding their credit practices. As these economic conditions and policies change, the volume of vehicles available for sale at auction may also be affected.

Insurance companies are the main source of salvage vehicles available for sale at auction. The number of vehicles branded as total losses is dependent upon several factors including government regulations, the extent of damage to the vehicle, the number of accidents, and the policies of the insurance companies with respect to claims settlement and redistribution of the salvage vehicles.

If the supply of vehicles from institutional sellers is reduced, fewer vehicles will pass through our auctions and our results of operations may be adversely affected.

The vehicle redistribution industry is highly competitive and we may not be able to compete successfully.

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles. We believe our principal competitors include other used and/or salvage vehicle auction companies, wholesalers, dealers, manufacturers and dismantlers, a number of whom may have established relationships with sellers and buyers of vehicles and may have greater financial resources than we have. Due to the limited number of sellers of used and salvage vehicles, the absence of long-term contractual commitments between us and our customers and the increasingly competitive market environment, there can be no assurance that our competitors will not gain market share at our expense.

We may encounter significant competition for local, regional and national supply agreements with sellers of used and salvage vehicles. There can be no assurance that the existence of other local, regional or national contracts entered into by our competitors will not have a material adverse effect on our business or our expansion plans. Furthermore, we are likely to face competition from major competitors in the acquisition of auction facilities, which could significantly increase the cost of such acquisitions and thereby materially impede our expansion objectives or have a material adverse effect on our results of operations. These potential competitors may include consolidators of used vehicle auctions, vehicle dismantling businesses, organized salvage vehicle buying groups, vehicle manufacturers and on-line auction companies. While most of our institutional customers have abandoned or reduced efforts to sell vehicles directly without the use of service providers such as us, there can be no assurance that this trend will continue, which could adversely affect our market share, results of operations and financial condition.

Additionally, existing or new competitors may be significantly larger and have greater financial and marketing resources than we have; therefore, there can be no assurance that we will be able to compete successfully in the future.

Our floorplan financing business faces competition at both the national and local levels.

We encounter diverse and fragmented competition at AFC, our floorplan financing business. AFC's competition includes the financing arms of other auction providers, other specialty lenders, banks and other financial institutions. In locations where we face competition from other floorplan financing providers, our loan production offices may be less profitable.

Some of our industry competitors who operate used vehicle auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. Currently, our largest competitor generally does not provide floorplan financing outside of its own auctions. If our competitor, however, begins to operate loan production offices that provide floorplan financing at auctions with which it is not affiliated, our loan production offices may lose business.

In addition, other national providers of used vehicle auctions may decide to enter the floorplan financing business to complement their auctions or auctions run by third parties. The entry of new national participants into the floorplan financing business may reduce our current market share and adversely affect our results of operations.

At the local level, we face competition from banks and credit unions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions, but may impact our results of operations at individual auction sites.

We can not assure you that the existence of other floorplan financing providers or the entry of new providers to the sector will not have a material adverse effect on AFC, its ability to compete successfully in the floorplan financing sector, or our overall ability to compete in the vehicle redistribution industry.

Seasonality of the auction business affects our quarterly revenues and earnings.

Generally, the volume of vehicles sold at auction is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter sales are generally lower than all other quarters. This seasonality is affected by several factors including weather, the timing of used vehicles available for sale from the institutional customers, holidays, and the seasonality of the retail market for used vehicles which affects the demand side of the auction industry. As a result, the revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis.

Our operations are weather sensitive.

Our results of operations can be affected by changes in the weather. Auction volumes tend to decline during prolonged periods of winter weather conditions. In addition, mild weather conditions and decreases in traffic volume can each lead to a decline in the available supply of salvage vehicles because fewer traffic accidents occur, resulting in fewer damaged vehicles overall. We cannot predict future weather conditions and as a result, weather conditions could negatively affect our operations and financial condition.

We can offer you no assurances that we will be able to continue executing an acquisition strategy without the costs of future acquisitions escalating.

Although there are potential acquisition candidates that fit our acquisition criteria, we are not certain that we will be able to consummate any such transactions in the future or identify those candidates that would result in the most successful combinations, or that future acquisitions will be able to be consummated at acceptable prices and terms. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including:

- the availability of suitable acquisition candidates;
- competition with other auction groups or new industry consolidators for suitable acquisitions;
- the negotiation of acceptable terms;
- our financial capabilities;
- the availability of skilled employees to manage the acquired companies; and
- general economic and business conditions.

We may be required to file applications and obtain clearances under applicable federal antitrust laws before completing an acquisition. These regulatory requirements may restrict or delay our acquisitions, and may increase the cost of completing acquisitions.

Risks associated with acquisitions may hinder our ability to increase revenues and earnings.

The vehicle redistribution industry is considered a mature industry in which low single digit growth is expected in industry unit sales. Accordingly, our future growth depends in large part on our ability to increase our volumes relative to our competition, acquire additional auctions, manage expansion, control costs in our operations, introduce modest fee increases and new services and consolidate future auction acquisitions into existing operations. In pursuing a strategy of acquiring other auctions, we

face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

- incurring significantly higher capital expenditures and operating expenses;
- failing to assimilate the operations and personnel of the acquired auctions;
- entering new markets with which we are unfamiliar;
-

potential undiscovered liabilities at acquired auctions;

>
disrupting our ongoing business;

>
diverting our limited management resources;

>
failing to maintain uniform standards, controls and policies;

>
impairing relationships with employees and customers as a result of changes in management; and

>
increasing expenses for accounting and computer systems, as well as integration difficulties.

We may not adequately anticipate all of the demands that our growth will impose on our systems, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. If we cannot adequately anticipate and respond to these demands, our business could be materially harmed.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

We cannot guarantee that the construction of new auctions, redevelopment of existing auction sites or relocation of auction sites will be profitable.

The costs of the construction of new auctions or redevelopment of existing auction sites (referred to in the industry as "greenfield development") or relocation of our auction sites may be substantial. In addition, we may encounter delays and scope changes while an auction site is under development that cause our capital investment to increase and our returns to be lower than expected. Although our strategy is to secure support from institutional customers and insurance companies prior to developing new or relocated facilities, there is no guarantee that new or relocated facilities will be able to attract these customers or deliver sustained revenue or profit.

We assume the settlement risk for all vehicles sold through our auctions.

As part of the fees earned for the services we provide relative to the sale of each vehicle at auction, we assume the risk associated with collecting the gross sales proceeds from buyers and likewise assume responsibility for distributing to sellers the net sales proceeds of vehicles. The fees for each vehicle are collected by adding the buyer-related fees to the gross sales proceeds due from the buyer and deducting the seller-related fees from the gross sales proceeds prior to distributing the net sales proceeds to the seller. The amount we report as revenue for each vehicle only represents the fees associated with our services and does not include the gross sales price of the consigned vehicle. As a result, the accounts receivable from buyers are much larger on a per vehicle basis than the combined seller- and buyer-related fees associated with each transaction. We do not have recourse against sellers for any buyer's failure to satisfy its debt. Since our revenues for each vehicle do not include the gross sales proceeds, failure to collect the receivables in full would result in a net loss up to the gross sales proceeds on a per vehicle basis in addition to any expenses incurred to collect the receivables and to provide the services associated with the vehicle. Although we take steps to mitigate this risk, if we are unable to collect payments on a large number of vehicles our resulting payment obligations and

decreased fee revenues may have a material adverse effect on our results of operations and financial condition.

In addition, in the ordinary course of business, it is our responsibility to fully disclose any defects or other information relevant to the value of a vehicle sold through our auctions only to the extent that we have discovered or we have been informed by the seller that the defect or other relevant information exists. In cases where we fail to properly disclose information about a particular vehicle, we typically refund the fees collected and void the sale of the vehicle. If we are unable to reach a settlement satisfactory to the seller, we generally purchase the vehicle, which subjects us to the costs and risks of resale. In cases where a seller fails to inform us of a defect, the seller is liable for the results of such omission.

Increased use of on-line wholesale auctions may diminish our supply of vehicles.

Direct sales of used vehicles by institutional customers and large dealer groups through internally developed or third party on-line auctions have largely replaced telephonic and other non-auction methods, becoming an increasing portion of overall used vehicle redistribution over the past several years. In addition, a portion of the vehicles that were sold through a physical auction are now being sold on-line. Typically, on-line auctions serve to redistribute vehicles that have come off lease. The extent of use of direct, on-line systems varies among institutional customers and currently comprises approximately 3% to 5% of overall used vehicle auction sales. In addition, some of our competitors have begun to offer on-line auctions as all or part of their auction business and other on-line auctions now include used vehicles among the products offered at their auctions. On-line auctions or other methods of redistribution may diminish both the quality and quantity and reduce the value of vehicles sold through traditional auction facilities. Although we have embraced the Internet and offer on-line auctions and services as part of our standard service offerings, we cannot predict what portion of overall sales will be conducted through on-line auctions or other redistribution methods in the future and what impact this may have on our auction facilities.

The proceeds of this offering will not be available to grow our business; following the Transactions, we will have substantial debt obligations that could restrict our operations.

Substantially all the proceeds of our initial public offering, the notes offering and our new credit facility will be used to complete the Transactions and will not be available to grow our business. Following the Transactions, we will have substantial indebtedness. Giving effect to the offering of our senior subordinated notes and the borrowings under our proposed senior secured credit facility, our total indebtedness will be approximately $535 million and our available borrowing capacity under our proposed senior secured credit facility will be approximately $150 million. We and our subsidiaries may also incur substantial indebtedness in the future.

Our substantial indebtedness could have adverse consequences, including:

- increasing our vulnerability to adverse economic, regulatory and industry conditions;
- limiting our ability to compete and our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limiting our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate or other purposes; and
- limiting our ability to pay dividends.

Our debt service obligations will require us to use a portion of our operating cash flow to pay interest and principal on debt instead of for other corporate purposes, including funding future expansion and ongoing capital expenditures. If our cash flow and capital resources are insufficient to service our debt obligations, we may be forced to sell assets, seek additional equity or debt capital or restructure our

debt. However, these measures might be unsuccessful or inadequate in permitting us to meet scheduled debt service obligations.

An increase in short-term interest rates could adversely affect our cash flows.

Prior to or concurrently with the completion of this offering, we expect to enter into a $525 million senior secured credit facility, consisting of a $150 million revolving credit facility and one or more term loan facilities aggregating $375 million. We expect that these bank facilities will be floating-rate facilities indexed to LIBOR. In recent years, interest rates have declined, thereby having a positive effect on the value to borrowers of floating rate debt obligations generally. This trend might not continue in the future. Furthermore, values of certain interest rate indices have been volatile, and volatility in those and other interest rate indices may be expected in the future. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. Any increase in short-term interest rates would result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

Changes in technology could cause our services to become obsolete and, as a result, we may lose customers.

Technology is an integral part of our operations and is subject to evolving industry standards. The information systems and processes necessary to support risk management, sales, customer service and procurement and supply are new, complex and extensive. To be successful, we must adapt to this evolving market by continually improving the responsiveness, functionality and features of our services to meet our customers' changing needs. We may not be successful in developing or acquiring technology which is competitive and responsive to the needs of our customers and might lack sufficient resources to continue to make the necessary investments in technology to compete with our competitors. Without the timely introduction of new services and enhancements that take advantage of the latest technology, our services could become obsolete over time and we could lose a number of our customers.

Our operations subject us to the risk of collusion, misconduct and other improper business practices by our employees and third parties.

In the past, some of our employees have acted in collusion with one another, with individual contractors or third party service providers, and/or with customers, in order to manipulate our policies, procedures and systems. Some of our auction employees also have engaged in misconduct or wrongdoing, including isolated acts of dishonesty and malfeasance, exercised poor judgment or otherwise conducted business in an improper manner. In addition, customers acting in collusion have redistributed vehicles through our auctions on terms that were not arms length. As a result of these activities, our services have been sold at a discount or for no fee, credit has been extended outside of the normal course of operations, unnecessary services have been provided and operating costs have increased. We have enhanced our internal control systems and conduct random on-site audits of auction facilities to identify and minimize these activities. While collusion, misconduct and other improper business practices have not had a material adverse effect on our operating results in the past, we cannot assure you that activities similar to those described above will not occur in the future or will be detected by us in a timely manner or before a material loss is incurred. If our internal controls fail to prevent future acts of collusion, misconduct and other improper business practices, resulting losses could have a material adverse effect on our results of operations and financial condition.

Our operations may be restricted by vehicle-related or lending laws and other regulations, including vehicle brokerage and auction laws.

Our operations are subject to regulation, supervision and licensing under various United States or Canadian federal, state, provincial and local statutes, ordinances and regulations. Each auction is subject to laws in the state or province in which it operates which regulate auctioneers and/or vehicle dealers. Some of the transport vehicles used at our auctions are regulated by the United States Department of Transportation or the Canadian Transportation Agency. The acquisition and sale of salvage and theft recovered vehicles is regulated by governmental agencies in each of the locations in which we operate. In many states and provinces, regulations require that the title of a salvage vehicle be forever "branded" with a salvage notice in order to notify prospective purchasers of the vehicle's previous salvage status. Some state, provincial and local regulations also limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts only. Such regulations can reduce the number of potential buyers of vehicles at salvage auctions. In addition to the regulation of the sales and acquisition of vehicles, we are also subject to various local zoning requirements with regard to the location and operation of our auction and storage facilities.

If we fail to comply with applicable regulations and requirements, we could be subject to civil or criminal liability and the imposition of liens or fines. In addition, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or our facilities, and future changes in laws and regulation may have a detrimental effect on our businesses.

A portion of our net income may be derived from non-United States sources, which exposes us to foreign exchange and other risks.

Approximately 20% of our net income is derived from our Canadian facilities. We also conduct operations in Mexico. As a result, fluctuations between United States and non-United States currency values may adversely affect our results of operations and financial position. In addition, there are tax inefficiencies in repatriating cash flow from non-United States subsidiaries. To the extent such repatriation is necessary for us to meet our debt service or other obligations, these tax inefficiencies may adversely affect us.

The operation of our auction facilities poses certain environmental risks which could adversely affect our results of operations and financial condition.

Our operations are subject to a variety of federal, state and local laws and regulations concerning protection of the environment, including those relating to emissions to air, to discharges to water and remediation of soil and groundwater contamination. In the vehicle redistribution industry, large numbers of vehicles, including damaged vehicles at salvage vehicle auctions, are stored at auction facilities and, during that time, releases of fuel, motor oil and other fluids may occur, resulting in soil, surface water, air or groundwater contamination. In addition, we generate and/or store petroleum products and other hazardous materials, including wastewater, waste solvents and used oil run-off from our vehicle reconditioning and detailing facilities, and body shops at our facilities may release harmful air emissions associated with painting. We could incur substantial expenditures for preventative, investigative or remedial action and could be exposed to liability arising from our operations, contamination by previous users of our acquired facilities, or the disposal of our waste at off-site locations. Environmental laws and regulations and their enforcement could become more stringent over time and there can be no assurance that we or our operations will not be subject to significant costs in the future. Any such expenditures or liabilities could have a material adverse effect on our results of operations and financial condition. For a further discussion of the environmental regulation of our businesses, see "Business Environmental regulation."

We are dependent on good labor relations.

At March 31, 2004, we had a total of 10,952 employees, with 8,725 located in the United States and Mexico and 2,227 located in Canada. Approximately 64 percent of our work force consists of full-time employees. In addition to our work force of employees, we also utilize temporary labor services to assist us in handling the vehicles consigned to us during periods of peak volume and staff shortages. Many of our employees, both full- and part-time, are unskilled, and in periods of strong economic growth, we may find it difficult to compete for sufficient unskilled labor. Many of the services we provide are outsourced to third party providers that perform the services either on-site or off-site. The use of third party providers depends upon the resources available at each auction facility as well as peaks in the volume of vehicles offered at auction. If we are unable to maintain our full- or part-time workforce or the necessary relationships with third party providers, our operations may be adversely affected.

In addition, auctioneers at our auctions are highly skilled individuals who are essential to the successful operation of our auction business. Nearly all of our auctioneers are independent contractors who provide their services for a daily or weekly rate. If we are unable to retain a sufficient number of experienced auctioneers, our operations may be adversely affected.

If we are not able to retain our executive officers and key employees, we may not be able to implement our business strategy and our business could suffer.

If we fail to retain our executive officers or key employees, our business could suffer. We may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service. Although leadership changes will occur in connection with the spin-off, we cannot predict whether significant resignations will occur. The success of our business heavily depends on the leadership of our executive officers, all of whom are employees-at-will and none of whom are subject to any agreements not to compete. If we lose the service of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. Additionally, we have no key person insurance on any of our executive officers.

If we are not able to protect our intellectual property rights or successfully defend claims of infringement against us, we may not be able to compete effectively.

We currently rely on trademark rights and trade secrets to establish and protect our intellectual property, such as our trade name, and similar proprietary rights. We develop software internally and through outsourcing relationships, and we have also licensed, and may license in the future, copyrighted computer systems software and trade secrets from third parties. While we attempt to ensure that our intellectual property and similar proprietary rights are protected and that the third party rights we need are licensed to us when entering into business relationships, our business partners, consultants or other third parties may take actions that could materially and adversely affect our rights or the value of our intellectual property, similar proprietary rights or reputation. In addition, if we are subject to any infringement claims, such claims may have an adverse effect on our business operations.

Forward-looking statements

Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "will likely result," "will continue," "should" or similar expressions) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions, risks and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

> our ability to successfully implement our strategic objectives;

> war and acts of terrorism;

> prevailing vehicle-related laws, including vehicle brokerage and auction laws;

> unanticipated effects of restructuring initiatives in the automotive industry;

> economic and geographic factors, including political and economic risks;

> changes in and compliance with environmental and safety laws and policies;

> weather conditions;

> natural disasters;

> market factors affecting supply and demand for used vehicles;

> population growth rates and demographic patterns;

> the effects of competition, including competition for retail and wholesale customers, as well as sellers and buyers of vehicles;

> changes in tax rates or policies or in rates of inflation;

> unanticipated changes in operating expenses and capital expenditures;

> capital market conditions;

> competition for economic expansion or development opportunities;

> our ability to manage expansion and integrate acquisitions; and

> the outcome of any legal and administrative proceedings (whether civil or criminal) and settlements that affect our business and profitability.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Factors that could cause such a difference include those discussed under the heading "Risk factors" in this prospectus. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this prospectus.

Use of proceeds

The net proceeds to us from this offering are estimated to be $134.5 million, based upon an initial public offering price of $24 per share and after deducting the underwriters' discount and fees and expenses of the offering. If the underwriters' over-allotment option is exercised in full, the net proceeds will be approximately $155.4 million. We intend to use a portion of the approximately $122 million of net proceeds of the notes offering or other cash on hand to pay accrued interest and principal on the $100 million intercompany note owed to ALLETE. We intend to use the net proceeds from this offering, together with the remaining proceeds from the notes issuance and $375 million borrowed under our new credit facility, to repay $200.2 million of our outstanding debt to unaffiliated third parties, to repay all of our other outstanding intercompany debt owed to ALLETE and its subsidiaries, which totaled $144.6 million as of March 31, 2004, and to use the remainder of the net proceeds for general corporate purposes, including to repurchase shares of our common stock from certain ALLETE employee benefit plans after the spin-off.

The outstanding debt that we intend to repay consists of the following: (a) $90 million aggregate principal amount of our 7.70% senior notes, series A, due June 1, 2006, (b) $35 million aggregate principal amount of our 8.10% senior notes, series B, due March 30, 2010, (c) a note payable in the amount of $45 million relating to our used vehicle auction facility located in Tracy, California, which matures on July 30, 2006 and accrues interest at a variable rate of prime or LIBOR plus 1%, (d) a note payable in the amount of $28.4 million relating to our used vehicle auction facilities located in Boston, Massachusetts, Charlotte, North Carolina and Knoxville, Tennessee, which matures on April 1, 2005 and accrues interest at a variable rate equal to the seven-day "AA" financial commercial paper rate plus approximately 1.02% and (e) a note payable to Interstate Auto Auction in the amount of $1.8 million, which is payable upon demand until its maturity in 2011 and accrues interest at a variable rate equal to prime.

The outstanding intercompany debt that we intend to repay consists of the following: (a) a note payable to ALLETE in the amount of $100 million, which is payable upon demand and accrues interest at a rate of 2% per year, (b) $141.2 million outstanding under our revolving line of credit with ALLETE, which terminates on December 31, 2004 and accrues interest at a variable rate equal to the "A1-P1" commercial paper rate plus 0.6% and (c) a note payable to ALLETE in the amount of $3.4 million, which matures on June 1, 2006 and accrues interest at a variable rate equal to prime plus 1%.

The following tables set forth the estimated sources and uses of funds in connection with the Transactions, the first showing the use of the proceeds from our initial public offering and notes offering and the second showing the use of the proceeds from our new bank credit facility, assuming they occurred on March 31, 2004:

	Amount
	(in millions)
Sources:	
Proceeds from initial public offering	$150.0
Proceeds from senior subordinated notes offering	$125.0
Total	$275.0
Uses:	
Repayment of intercompany note owed to ALLETE	$100.1
Fees and expenses[(a)]	18.6
Repurchase of shares[(b)]	130.0
General corporate purposes	26.3
Total	$275.0

	Amount
	(in millions)
Sources:	
Borrowings under new credit facility[(c)]	$375.0
Uses:	
Repayment of debt:[(d)]	
Existing debt	$200.2
Intercompany debt	144.6
Existing credit facility	0.0
Prepayment expenses on existing debt	17.0
Fees and expenses[(e)]	6.0
General corporate purposes	7.2
	$375.0

(a) Includes investment banking, legal, accounting, printing and other miscellaneous fees and expenses in connection with the Transactions.

(b) We expect to use this estimated amount to repurchase shares of our common stock from certain ALLETE employee benefit plans after the spin-off. The amount of funds used to repurchase our common stock will be subject to a number of factors, including the price of our common stock at the time of repurchase and the number of shares repurchased.

(c) The actual amount that initially will be borrowed under our new credit facility will depend on the amount of outstanding intercompany debt and borrowings under our existing credit facility, if any, immediately prior to the closing of the Transactions. We do not expect to borrow any amounts under our $150 million revolving loan facility at the time of the consummation of the Transactions.

(d) Substantially all of our outstanding debt, excluding capital lease obligations, will be repaid in connection with the Transactions.

(e) Includes estimated fees payable in connection with our new credit facility other than prepayment expenses on existing debt.

Dividend policy

We intend to pay a regular quarterly dividend of $0.075 per share to holders of our common stock. We are contemplating a dividend reinvestment plan for holders of our common stock. Payment of future dividends or the establishment of a dividend reinvestment plan will be at the discretion of our board of directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, plans for expansion and contractual restrictions with respect to the payment of dividends.

We paid a $17.5 million dividend to ALLETE, the sole holder of record of our common stock, through a wholly-owned subsidiary, on March 31, 2004. We also paid a $100 million dividend to ALLETE on May 25, 2004, in the form of an intercompany note. During each of the years ended December 31, 2003 and December 31, 2002, we did not pay a dividend to ALLETE.

Dilution

Our pro forma net tangible book value at March 31, 2004 after giving effect to the merger of ADESA Corporation with and into ADESA, Inc. but without giving effect to this offering was approximately $423,145,000, or $4.78 per share, assuming 88,600,000 shares of common stock issued and outstanding. Net tangible book value per share represents the amount of our tangible assets, meaning:

- total assets less intangible assets;
- reduced by our total liabilities; and
- divided by the pro forma total number of shares of common stock outstanding.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the net tangible book value per share immediately following this offeri