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

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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.

  - 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.

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

- **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.

- **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

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

- **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:

- **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.

- **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.

- **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.

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."

Statement of operations data	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)						
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

	For the three months ended March 31,						
Earnings per share data:							
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

	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		