ADESA INC
Form PREM14A
January 25, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:
x Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

ADESA, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

o	No fee required.		
x	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.		
	(1)	Title of each class of securities to which transaction applies: Common stock, $0.01 par value per share of ADESA, Inc.	
	(2)	Aggregate number of securities to which transaction applies: 94,597,180 shares of ADESA common stock comprised of (a) 90,136,438 shares of ADESA common stock; (b) options to purchase 4,060,239 shares of ADESA common stock assumed to be outstanding as of the effective time of the merger; and (c) 400,503 restricted stock units.	
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): Each outstanding share of ADESA common stock will be converted into the right to receive $27.85 as a result of the merger described in this proxy statement. For purposes of calculating the filing fee, each outstanding option to acquire ADESA common stock is deemed exercised and the per share merger consideration deemed received is determined by subtracting the weighted-average exercise price of $22.42 from $27.85. Also, for purposes of calculating the filing fee, each outstanding restricted stock unit is deemed converted into one share of ADESA common stock.	
	(4)	Proposed maximum aggregate value of transaction: $2,543,499,687.	
	(5)	Total fee paid: $272,155.	
o	Fee paid previously with preliminary materials.		
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.		
	(1)	Amount Previously Paid:	

	N/A
(2)	Form, Schedule or Registration Statement No.:
	N/A
(3)	Filing Party:
	N/A
(4)	Date Filed:
	N/A
	Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

[ ], 2007

Dear Fellow Stockholders:

On behalf of our board of directors and management, we cordially invite you to attend a special meeting of stockholders to be held on [ ], 2007, at 10:00 a.m., local time, at our executive offices located at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt and approve an agreement and plan of merger providing for the acquisition of ADESA by KAR Holdings, Inc., a wholly-owned subsidiary of KAR Holdings II, LLC, an entity controlled by a group of private equity funds consisting of Kelso & Company, GS Capital Partners VI, L.P., an affiliate of Goldman Sachs, ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P. If the merger is completed, you will have the right to receive $27.85 in cash, without interest and less any applicable withholding taxes, for each share of our common stock that you own.

At the special meeting you also will be asked to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Our board of directors has unanimously (excluding the recused directors Messrs. Gartzke and Sales) determined that the merger and the merger agreement are advisable, fair to and in the best interests of the company and our stockholders, and has unanimously (excluding the recused directors Messrs. Gartzke and Sales) adopted and approved the merger agreement. Accordingly, our board of directors unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that our stockholders vote FOR the adoption and approval of the merger agreement and the transactions contemplated by the merger agreement and FOR the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Your vote is important. We cannot complete the merger unless holders of a majority of all of the outstanding shares of our common stock entitled to vote adopt and approve the merger agreement. Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed proxy card or voting instruction card, or submit your proxy or instructions by phone or the Internet to ensure that your shares will be represented at the special meeting. If you do not vote, it will have the same effect as voting against the merger.

In the materials accompanying this letter, you will find a notice of the special meeting, a proxy statement that provides you with more detailed information about the proposed merger and a proxy card or voting instruction card. We encourage you to read the entire document, including the annexes, carefully.

Sincerely,

David G. Gartzke
Chairman of the Board and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, passed upon the merits or fairness of the merger or determined if this proxy statement is accurate or complete. Any representation to the contrary is a criminal offense.

This proxy statement is dated [ ], 2007, and is first being mailed to our stockholders on or about [ ], 2007.

ADESA, Inc.
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On [ ], 2007

Dear Stockholders:

PLEASE TAKE NOTICE that a special meeting of stockholders of ADESA, Inc., a Delaware corporation (the Company), will be held on [ ], 2007, at 10:00 a.m., local time, at the Company s executive offices located at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032, for the following purposes:

1. To consider and vote upon a proposal to adopt and approve the Agreement and Plan of Merger, dated as of December 22, 2006, by and among the Company, KAR Holdings II, LLC, a Delaware limited liability company (Buyer), KAR Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of Buyer (Holdings), and KAR Acquisition, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings (Merger Sub) (the Merger Agreement). Pursuant to the Merger Agreement, and upon the terms and subject to the conditions thereof, Merger Sub will merge with and into the Company and the Company will become a wholly-owned subsidiary of Holdings (the Merger);

2. To consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the Merger Agreement; and

3. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

The record date for the determination of stockholders entitled to notice of and to vote at the special meeting is [ ], 2007. Only stockholders of record as of that date will be entitled to notice of and to vote at the special meeting or any adjournment or postponement thereof.

We urge you to read the accompanying proxy statement and the referenced annexes carefully as they set forth details of the Merger and other important information related to the Merger.

Your vote is important, regardless of the number of shares of our common stock you own. The adoption and approval of the Merger Agreement requires the affirmative approval of the holders of a majority of the outstanding shares of our common stock entitled to vote thereon. The proposal relating to the adjournment and postponement of the special meeting requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the special meeting and entitled to vote thereon. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy card or voting instruction card or submit your proxy or instructions by telephone or the Internet prior to the special meeting and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you fail to return your proxy card or voting instruction card or fail to submit your proxy or instructions by phone or the Internet, your shares will not be counted for purposes of determining whether a quorum is present at the meeting and will have the same effect as a vote against the adoption and approval of the Merger Agreement, but will not affect the outcome of the vote regarding the proposal to adjourn or postpone the special meeting.

Please note that space limitations make it necessary to limit attendance at the special meeting to stockholders. Registration will begin at 9:30 a.m., local time. If you attend, please note that you may be asked to present valid picture identification. Street name holders will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the special meeting.

Stockholders who do not vote in favor of the adoption and approval of the Merger Agreement will have the right to seek appraisal of the fair value of their shares of our common stock if they deliver a demand for appraisal before the vote is taken on the Merger Agreement and comply with all requirements of the Delaware General Corporation Law, which are summarized in the accompanying proxy statement.

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN, AS PROMPTLY AS POSSIBLE, THE ENCLOSED PROXY CARD OR VOTING INSTRUCTION CARD IN THE ACCOMPANYING REPLY ENVELOPE, OR SUBMIT YOUR PROXY OR INSTRUCTIONS BY TELEPHONE OR THE INTERNET.

By Order of the Board of Directors,

George J. Lawrence
Executive Vice President,
General Counsel and Corporate Secretary

[ ], 2007
Carmel, Indiana

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ANNEXES

PROXY STATEMENT
FOR THE SPECIAL MEETING OF STOCKHOLDERS OF ADESA, INC.
TO BE HELD [ ], 2007

SUMMARY TERM SHEET

This Summary Term Sheet, together with the Questions and Answers About the Special Meeting and the Merger, summarizes the material information contained elsewhere in this proxy statement and the attached annexes. This summary does not purport to contain a complete statement of all material information relating to the merger agreement, the merger, and the other matters discussed herein, and is subject to, and is qualified in its entirety by, the more detailed information contained in or attached to this proxy statement. Where appropriate, items in this summary contain a cross reference directing you to a more complete description included elsewhere in this proxy statement. Our stockholders should carefully read this proxy statement in its entirety, as well as all annexes attached to this proxy statement.

Except as otherwise specifically noted in this proxy statement, we, our, us, ADESA, the Company and similar words in this proxy statement refer to ADESA, Inc. In addition, we refer to KAR Holdings II, LLC as Buyer, KAR Holdings, Inc. as Holdings, KAR Acquisition, Inc. as Merger Sub, and Buyer, Holdings and Merger Sub collectively as Buyer Parties. Furthermore, we refer to Kelso & Company and Kelso Investment Associates VII, L.P. collectively as Kelso; GS Capital Partners VI, L.P. together with GS Capital Partners VI Parallel, L.P., GS Capital Partners VI Offshore, L.P. and GS Capital Partners VI GmbH & Co. KG as GSCP; Parthenon Investors II, L.P. as Parthenon; ValueAct Capital Master Fund, L.P. as ValueAct; and Kelso, GSCP, Parthenon and ValueAct collectively, with their permitted assigns, as the Equity Sponsors. Finally, we refer to Insurance Auto Auctions, Inc. as IAAI.

The Merger Agreement

The Parties to the Merger (page 24)

ADESA, Inc.
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
(800) 923-3725

We are North America s largest publicly-traded provider of wholesale vehicle auctions and used vehicle dealer floorplan financing.

KAR Holdings II, LLC
KAR Holdings, Inc.
KAR Acquisition, Inc.
c/o Kelso & Company
320 Park Avenue, 24th Floor
New York, New York 10022
(212) 751-3939

Buyer is a newly formed Delaware limited liability company. Holdings is a newly organized Delaware corporation and a wholly-owned subsidiary of Buyer. Merger Sub is a newly organized Delaware corporation, a wholly-owned subsidiary of Holdings and an indirect wholly-owned subsidiary of Buyer. Buyer Parties were organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement, including the related financing transactions, and have not engaged in any business except activities incidental to their formation and in connection with the transactions contemplated by the merger agreement, including the financing thereof. Buyer is controlled by the Equity Sponsors.

The Merger (page 26)

You are being asked to vote for the adoption and approval of the merger agreement that we entered into with Buyer Parties on December 22, 2006. As a result of the merger, we will cease to be an independent, publicly-traded company, and will instead continue as a wholly-owned subsidiary of Holdings.

Effective Time of the Merger; Marketing Period (page 68)

The merger will become effective at the time we, Holdings and Merger Sub file the certificate of merger with the Secretary of State of the State of Delaware (or at a later time, if agreed upon by the parties and specified in the certificate of merger). In order to consummate the merger, we must obtain stockholder approval and the other closing conditions described under *Conditions to the Merger* on page 82, must be satisfied or waived; except that Buyer Parties will not be required to effect the closing until the earlier to occur of a date during the marketing period (as defined under *The Merger Agreement Effective Time of the Merger; Marketing Period* on page 68) specified by Buyer on not less than two business days notice to us and the final day of the marketing period. The marketing period under the merger agreement commences after we have obtained stockholder approval and the required regulatory approvals, satisfied the other closing conditions under the merger agreement and provided Buyer with certain required financial information in connection with the high-yield debt offering contemplated by Buyer s debt commitment letters. The merger agreement provides that the marketing period will commence no earlier than March 30, 2007 and will last 30 consecutive days, but may be extended or terminated under certain circumstances. To the extent that Buyer does not need the benefit of the marketing period to market and place the high-yield debt, it may, in its sole discretion, close the merger prior to the expiration of the marketing period if all of the closing conditions under the merger agreement are otherwise satisfied or waived.

Payment for the Shares (page 69)

If the merger is completed, at the effective time of the merger, each share of our common stock (other than shares owned by us, Buyer Parties, any of our direct or indirect wholly-owned subsidiaries, and any direct or indirect wholly-owned subsidiary of Buyer Parties, and other than shares of common stock held by stockholders who have properly demanded and perfected their appraisal rights in accordance with the Delaware General Corporation Law (the DGCL)) will be converted into the right to receive $27.85 in cash, without interest and less any applicable withholding taxes.

Stock Options; Restricted Stock Units (page 69)

Upon consummation of the merger, all outstanding options to acquire our common stock will be accelerated and fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which $27.85 exceeds the option exercise price, without interest and less any applicable withholding taxes. Additionally, all restricted stock units will be accelerated and fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of restricted stock units multiplied by $27.85, without interest and less any applicable withholding taxes. See *The Merger Agreement Stock Options* and *The Merger Agreement Restricted Stock Units* on page 69 and page 70, respectively.

No Solicitation of Transactions (page 77)

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving us or our subsidiaries. However, under certain limited circumstances, our board of directors may take certain actions with respect to an unsolicited bona fide written proposal relating to an alternative transaction (as defined under *The Merger Agreement No Solicitation of Transactions* on page 77) if (i) our board of directors determines that such proposal constitutes or could be reasonably expected to lead to a superior proposal (as defined under *The Merger Agreement Recommendation Withdrawal; Termination in Connection with a Superior Proposal* on page 78), (ii) our board of directors determines in good faith that it must respond to such proposal in order to comply with its fiduciary duties to our stockholders, and (iii) the receipt of such proposal did not result from a breach of our non-solicitation obligations under the merger agreement. See *The Merger Agreement No Solicitation of Transactions* on page 77.

Conditions to the Merger (page 82)

The consummation of the merger depends on the satisfaction or waiver of the following conditions:

- the merger agreement and the merger must have been adopted by the affirmative vote of the holders of a majority of the outstanding shares of our common stock;

- no temporary restraining order, injunction, or other legal restraint or prohibition that prevents the merger, or any statute, rule, regulation or order that makes the consummation of the merger illegal, shall be in effect;

- the waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act), or any other foreign antitrust or combination law and all material filings, consents, approvals and authorizations legally required to be made or obtained with or from a governmental authority to consummate the merger shall have expired, been terminated, made or obtained, as applicable;

- the total number of shares held by stockholders who have demanded and validly perfected appraisal rights for such shares under the DGCL shall not exceed 20% of the issued and outstanding shares of our common stock as of the effective time of the merger;

- the representations and warranties made by Buyer Parties and by us in the merger agreement must be true and correct, subject to certain materiality qualifications, as described under *The Merger Agreement Conditions to the Merger,* beginning on page 82; and

- we and Buyer Parties must have performed in all material respects all obligations that each of us is required to perform under the merger agreement.

Termination of the Merger Agreement (page 83)

The merger agreement may be terminated:

- by our and Buyer s mutual written consent;

- by either Buyer or us if:

- the merger is not completed on or before June 21, 2007, or (if the marketing period has started but has not ended on or prior to June 21, 2007) the earlier of the end of the marketing period and July 20, 2007, which we refer to in this proxy as the final date, or (if the marketing period has commenced but not ended on or prior to July 20, 2007 but could end on or prior to July 30, 2007), we have the sole right to extend the final date until the end of the marketing period, but in no event may the final date be extended beyond July 30, 2007 for any reason;

- any court of competent jurisdiction or governmental, regulatory or administrative agency or commission has issued a non-appealable final order, decree or ruling that effectively permanently restrains, enjoins or otherwise prohibits the merger; or

- at the special meeting (including any adjournment or postponement thereof), our stockholders do not approve the merger (except we may not terminate the merger agreement based on this

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reason if the failure to obtain such approval is caused by or related to our material breach of the merger agreement);

- by Buyer if:

- our board amends, modifies or withdraws its recommendation in favor of the merger, as further described in *The Merger Agreement Recommendation Withdrawal; Termination in Connection with a Superior Proposal* on page 78;

- our board adopts a formal resolution approving or recommends to our stockholders an alternative transaction, or publicly announces that it has received a superior proposal;

- prior to the date of the special meeting, we provide Buyer with notice of our intention to terminate the merger agreement based upon our board s good faith determination that it has received a superior proposal;

- we fail to include our board s recommendation of the merger in this proxy statement;

- our board fails to recommend against a third party tender or exchange offer relating to our common stock that, if consummated, would constitute an alternative transaction within ten business days of the commencement of such tender or exchange offer;

- our board publicly announces that it has received a proposal (other than a tender offer or exchange offer described above) relating to an alternative transaction and has determined that such proposal constitutes or could reasonably be expected to lead to a superior proposal and, within ten business days of such public announcement (or a longer period of time, if deemed necessary by our board to comply with its fiduciary duties, but no later than five business days prior to the date the stockholder vote is held at the special meeting), our board has not made a further public announcement stating that it both recommends against the third party proposal (or indicated that such proposal has been withdrawn and negotiations terminated) and reconfirms its recommendation of the merger; or

- we materially and intentionally breach any of our obligations under the merger agreement to:

- not (and cause each of our subsidiaries not to) authorize or permit any of our or our subsidiaries representatives to, directly or indirectly:

- initiate, solicit, knowingly encourage (including by way of furnishing non-public information) or take any action to facilitate any inquiries or the making of any proposal relating to, or that could reasonably be expected to lead to, an alternative transaction;

- enter into any discussions or negotiate with (or provide non-public information to or otherwise afford access to our or our subsidiaries properties, books or records) any third party in connection with any proposal relating to an alternative transaction;

- agree to enter into any letter of intent or similar agreement in principle or other contract with respect to, or approve or recommend or otherwise endorse or support, any proposal relating to an alternative transaction; or

- grant any waiver or release to any person under any standstill or similar agreement to which we are a party;

- cease (and cause our subsidiaries and our respective representatives to cease) immediately and cause to be terminated any discussions or negotiations with third parties relating to

any alternative transaction that were conducted prior to our signing the merger agreement;

- promptly notify Buyer orally and in writing of the material terms (including the identity of the third party) of any proposals received relating to any alternative transaction, any material changes relating thereto or any other requests for information, discussions or negotiations relating thereto;

- notify our representatives of the non-solicitation restrictions contained in the merger agreement and use our reasonable best efforts to ensure our and our subsidiaries representatives do not violate any such restrictions;

- prior to furnishing information to or entering into discussions with a third party in connection with a proposal relating to an alternative transaction, provide written notice to Buyer of our actions; provide to Buyer any non-public information concerning us or our subsidiaries that is provided to the third party and was not previously provided to Buyer; and execute a confidentiality agreement with the third party on terms that are comparable to and no less restrictive than the confidentiality agreement between us and Kelso;

- not (i) approve or enter into any letter of intent, agreement in principle, acquisition agreement or similar contract relating to any alternative transaction or (ii) approve or recommend or publicly propose to approve or recommend any alternative transaction; provided, that if, prior to the receipt of stockholder approval, our board determines in good faith, after consultation with its outside legal counsel and financial advisor, that a superior proposal has been made, our board may (A) approve or recommend such superior proposal, (B) cause us to enter into a binding definitive agreement with respect to such superior proposal, or (C) terminate the merger agreement prior to the special meeting; provided, further that prior to taking any of the foregoing actions, we (x) provide Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (y) cooperate and negotiate with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (z) consider any revised proposal made by Buyer before determining in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal; or

- our board formally resolves to take, or publicly announces an intention to take, any of the foregoing actions;

- by Buyer, if Buyer is not in material breach of the merger agreement, if we materially breach any of our representations, warranties, covenants or agreements set forth in the merger agreement that would cause the closing conditions specific to us to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured); or

- by us, if:

- prior to the special meeting, our board determines in good faith, after consultation with its outside legal counsel and financial advisor, that a superior proposal has been made (subject to the requirement that we have (A) provided Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the

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person making such proposal) of our intention to terminate the merger agreement, (B) cooperated and negotiated with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (C) considered any revised proposal made by Buyer before determining in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal);

- Buyer materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement that would cause the closing conditions specific to Buyer Parties to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured), except that we may not terminate the merger agreement based on this reason if:

- we are in material breach of the merger agreement; or

- if Buyer Parties material breach is with respect to the financing representation or financing covenant, if (i) the marketing period either has not commenced or ended at the time we would have a right to terminate for such material breach, and (ii) Buyer Parties are using their reasonable best efforts to obtain the financing and the financing is reasonably likely to be obtained prior to the end of the marketing period; or

- the mutual conditions and the conditions to Buyer Parties obligation to close have been satisfied (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7⅝% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger) and on the last day of the marketing period, none of Buyer Parties have received sufficient financing to consummate the merger and our failure to fulfill any of our obligations under the merger agreement has not been a principal cause of or reasonably resulted in the failure of Buyer Parties to have received such financing by the last day of the marketing period.

Termination Fee Payable to Us (page 86)

The merger agreement provides that Buyer will pay to us a termination fee of $40 million if all of the conditions to Buyer s obligation to consummate the merger have been satisfied (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7⅝% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required be satisfied at the effective time of the merger), and the merger agreement is terminated:

- by us or Buyer if the merger is not consummated by the final date as a result of Buyer Parties failure to obtain sufficient financing to consummate the merger and the other transactions contemplated by the merger agreement by the end of the marketing period;

- by us (if we are not in material breach of the merger agreement at the time of termination) in connection with a material breach by Buyer related to Buyer Parties failure to obtain sufficient financing by the end of the marketing period, or Buyer Parties material and intentional breach of their financing representations or financing covenants under the merger agreement, and in either case, such breach would cause the closing conditions specific to Buyer Parties to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured), unless, if Buyer Parties material breach is with respect to the financing representation or financing covenant, if:

- the marketing period either has not commenced or ended at the time we would have a right to terminate the merger agreement for such material breach; and

- Buyer Parties are using their reasonable best efforts to obtain the financing and the financing is reasonably likely to be obtained prior to the end of the marketing period; or

- by us, if, on the last day of the marketing period, none of Buyer Parties have received sufficient financing to consummate the merger and our failure to fulfill any of our obligations under the merger agreement has not been a principal cause of or reasonably resulted in the failure of Buyer Parties to have received such financing by the last day of the marketing period.

Termination Fee Payable to Buyer (page 87)

The merger agreement provides that we will pay Buyer a termination fee of $40 million if the merger agreement is terminated (i) by us, prior to the special meeting, in connection with a superior proposal (subject to the requirement, among others, that we provide Buyer with notice of our intent to terminate the merger agreement based upon our receipt of a superior proposal and a five business day period to match the material terms of the superior proposal); or (ii) by Buyer if:

- our board amends, modifies or withdraws its recommendation in favor of the merger;

- our board approves or recommends an alternative transaction or publicly announces that it has received a superior proposal;

- prior to the date of the special meeting, we provide Buyer with notice of our intention to terminate the merger agreement based upon our receipt of a superior proposal;

- we fail to include our board s recommendation of the merger in this proxy statement;

- our board fails to recommend against a third party tender or exchange offer relating to our common stock that, if consummated, would constitute an alternative transaction, within ten business days of the commencement of such tender or exchange offer;

- our board publicly announces that it has received a proposal (other than a tender offer or exchange offer described above) relating to an alternative transaction and has determined that such proposal constitutes or could reasonably be expected to lead to a superior proposal and, within ten business days of such public announcement (or a longer period of time, if deemed necessary by our board to comply with its fiduciary duties, but no later than five business days prior to the date the stockholder vote is held at the special meeting), our board has not made a further public announcement stating that it both recommends against the third party proposal (or indicated that such proposal has been withdrawn and negotiations terminated) and reconfirms its recommendation of the merger; or

- we materially and intentionally breach any of our obligations under the merger agreement to:

- not solicit an alternative transaction, cease all negotiations or communications that could reasonably be expected to lead to an alternative transaction, and notify Buyer of all material terms of any proposals received by us or our subsidiaries relating to any alternative transaction, as described under *The Merger Agreement No Solicitation of Transactions* on page 77;

- provide written notice to Buyer of our actions prior to furnishing information to or entering into discussions with a third party in connection with a proposal relating to an alternative transaction, provide to Buyer any non-public information concerning us or our subsidiaries that is provided to the third party and was not previously provided to Buyer, and execute a

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confidentiality agreement with the third party on terms that are comparable to and no less restrictive than the confidentiality agreement between us and Kelso; or

- provide Buyer with at least five business days prior notice of our intention to terminate the merger agreement based upon our receipt of a superior proposal, negotiate with Buyer during this five business day period (or any extension thereof) and consider any revised proposal made by Buyer, as described under *The Merger Agreement Recommendation Withdrawal; Termination in Connection with a Superior Proposal* on page 78.

The merger agreement also provides that, unless we are otherwise obligated to pay Buyer a termination fee of $40 million due to any breach described above, we will pay to Buyer 25% of the $40 million termination fee, or $10 million, if the merger agreement is terminated because (i) the merger is not consummated by the final date, (ii) our stockholders fail to approve the merger at the special meeting (including any adjournment or postponement thereof), or (iii) we materially breach the merger agreement; and prior to such termination, an alternative transaction shall have been publicly announced, disclosed or otherwise communicated to our board. We will pay to Buyer the remainder of the termination fee, or $30 million, if, within twelve months of such termination, we recommend to our stockholders, enter into an agreement with respect to, or consummate an alternative transaction. We are not obligated to pay a termination fee of $40 million more than once under any circumstances.

Expenses (page 90)

Our Transaction Expenses (page 90). If we are not otherwise in material breach of the merger agreement or entitled to a termination fee, Buyer will pay to us our transaction expenses, up to $8 million, if the merger agreement is terminated based upon (i) Buyer s material breach of any representation, warranty, covenant or agreement in the merger agreement (subject to a 30-day cure period for breaches that, by their nature, may be cured) or (ii) a failure to consummate the merger by the final date following a material breach of the merger agreement by Buyer Parties.

Buyer Transaction Expenses (page 90). If Buyer Parties are not otherwise in material breach of the merger agreement or entitled to a termination fee, we will pay to Buyer its transaction expenses, up to $8 million, if the merger agreement is terminated (i) because the merger is not consummated by the final date following a material breach of the merger agreement by us or because we failed to hold the special meeting due to a risk of not obtaining stockholder approval, (ii) due to a failure to obtain stockholder approval of the merger, or (iii) based upon our material breach of any representation, warranty, covenant or agreement in the merger agreement (subject to a 30-day cure period for breaches that, by their nature, may be cured).

Recommendation of Our Board of Directors (page 40)

Our board of directors has unanimously (excluding the recused directors Messrs. Gartzke and Sales) approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared that the merger, the merger agreement and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the company and our stockholders. Accordingly, our board of directors unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the adoption and approval of the merger agreement. Our board of directors also unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Opinion of Credit Suisse Securities (USA) LLC (page 40)

In connection with the proposed merger, our board of directors received and considered the written opinion, dated December 21, 2006, of Credit Suisse Securities (USA) LLC, referred to in this proxy statement as Credit Suisse, as to the fairness, from a financial point of view and as of the date of such opinion, to the holders of our common stock, other than Buyer and its affiliates, of the merger consideration of $27.85 per share. The full text of Credit Suisse s written opinion is attached to this proxy statement as Annex C. We encourage you to read this opinion carefully and in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the scope of review undertaken by Credit Suisse. We engaged Credit Suisse solely to provide an opinion in connection with the merger. **Credit Suisse s opinion was provided to our board of directors in connection with its evaluation of the merger consideration, relates only to the fairness, from a financial point of view, to the holders of our common stock, other than Buyer and its affiliates, of the merger consideration and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger.**

Financing for the Merger (page 51)

The merger agreement does not contain any condition relating to the receipt of financing by Buyer. We and Buyer Parties estimate that the total amount of funds necessary to consummate the merger and related transactions, the repayment or refinancing of certain existing indebtedness and the payment of customary transaction fees and expenses will be approximately $[ ] billion, which is expected to be funded by new credit facilities, private and/or public offerings of debt securities and equity financing. Funding of the equity and debt financing is subject to the satisfaction of the conditions set forth in the commitment letters under which the financing will be provided. See *The Merger Financing for the Merger,* beginning on page 51.

The following arrangements are in place for the financing of the merger, including the payment of a portion of the merger consideration and related expenses pursuant to and in accordance with the merger agreement:

Equity Financing. Buyer has received equity commitment letters from each Equity Sponsor, pursuant to which, subject to the conditions contained therein, the Equity Sponsors have collectively agreed to make or cause to be made cash capital contributions to Buyer of up to $[ ] million. Pursuant to ValueAct s equity commitment letter, at its election, ValueAct may satisfy a portion of its cash equity commitment through the contribution of shares of our common stock held by ValueAct to Buyer immediately prior to the effective time of the merger.

Debt Financing. Holdings has received debt commitment letters from Bear Stearns Corporate Lending Inc., UBS Loan Finance LLC, UBS Securities LLC, Goldman Sachs Credit Partners L.P., Deutsche Bank AG New York Branch, Deutsche Bank AG Cayman Islands Branch and Deutsche Bank Securities Inc. (collectively the Lenders) to provide (i) up to $[ ] of term loan and revolving credit loans under senior secured credit facilities, (ii) up to $[ ] of senior unsecured loans under a bridge facility and (iii) up to $[ ] of senior subordinated loans under a bridge facility.

Limited Guarantees (page 92)

In connection with the merger agreement, each of the Equity Sponsors entered into a limited guarantee with us under which, among other things, each of the Equity Sponsors has agreed to, severally and not jointly, guarantee the payment, if and when due under the merger agreement, of a pro rata percentage of Buyer Parties obligation (i) to pay us a termination fee of $40 million if the merger agreement is terminated under certain circumstances and (ii) to reimburse our transaction expenses, up to $8 million, if the merger agreement is terminated under certain circumstances. The limited guarantees are our sole and exclusive recourse against the Equity Sponsors arising from or related to the merger agreement and transactions contemplated thereby. Copies of the limited guarantees entered into with each of the Equity Sponsors are attached to this proxy statement as Annexes B-1, B-2, B-3 and B-4.

Interests of Our Directors and Executive Officers in the Merger (page 53)

In considering our board s recommendation of the merger, you should be aware that our directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder, and that may present actual or potential conflicts of interest.

Appraisal Rights (page 64)

Under the DGCL, holders of our common stock who do not vote in favor of adopting and approving the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements under the DGCL, which are summarized in this proxy statement. This appraisal amount could be more than, the same as or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement. Any holder of our common stock intending to exercise such holder s appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption and approval of the merger agreement and must not vote or otherwise submit a proxy in favor of adoption and approval of the merger agreement. Your failure to follow exactly the procedures specified under the DGCL will result in the loss of your appraisal rights. See *The Merger Appraisal Rights,* beginning on page 64, and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex D.

Regulatory Approvals (page 67)

Under the HSR Act and the rules promulgated thereunder by the Federal Trade Commission, both Buyer and we have filed notification and report forms with the Federal Trade Commission and the Antitrust Division of the Department of Justice. The merger may not be completed until the applicable waiting period under the HSR Act has expired or been terminated. On January 24, 2007, the parties obtained the required approval under the HSR Act to complete the merger. We are not aware of any approvals that are necessary under foreign antitrust laws.

Material U.S. Federal Income Tax Consequences (page 62)

If you are a U.S. Holder (as defined below in *The Merger Material U.S. Federal Income Tax Consequences* on page 62), the merger will be treated for U.S. federal income tax purposes as a fully taxable sale of stock by you. Your surrender of shares of our common stock for cash in the merger generally will cause you to recognize taxable gain or loss measured by the difference, if any, between the amount of cash you receive and your adjusted tax basis in such shares. If you are a Non-U.S. Holder (as defined below in *The Merger Material U.S. Federal Income Tax Consequences* on page 62), you generally will not be subject to U.S. federal income tax (including withholding tax) on any gain recognized upon your surrender of shares of our common stock for cash in the merger, unless you have certain connections to the United States. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal tax consequences to you of the merger, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should also consult your own tax advisor regarding the exercise of appraisal rights, the receipt of cash in connection with the cancellation of restricted stock units or stock options, or any other matters relating to equity compensation or benefit plans.

The Special Meeting (page 20)

General (page 20)

The special meeting will be held on [ ], 2007, at 10:00 a.m., local time, at our executive offices located at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032.

At the special meeting, stockholders will consider and vote on a proposal to adopt and approve the merger agreement, pursuant to which and upon the terms and subject to the conditions thereof, Merger Sub will merge with and into us. The adoption and approval of the merger agreement will also constitute approval of the merger and the other transactions contemplated by the merger agreement.

At the special meeting, you also will be asked to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Record Date (page 20)

Our board of directors has fixed the close of business on [ ], 2007, as the record date for determining stockholders entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting.

Vote Required for a Quorum and Adoption and Approval of the Proposals, Effect of Abstentions and Broker Non-Votes (page 20)

The affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote is required to adopt and approve the merger agreement. The affirmative vote of the holders of a majority of the outstanding shares of our common stock present or represented by proxy at the special meeting and entitled to vote on the matter is required to approve the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Delisting and Deregistration of Our Common Stock (page 62)

If the merger is completed, our common stock will no longer be traded on the New York Stock Exchange and will be deregistered under the Securities Exchange Act of 1934, as amended.

Market Price and Dividend Data for Common Stock (page 93)

Our common stock is listed on the New York Stock Exchange under the symbol KAR. On July 26, 2006, the trading date when the board of directors authorized the exploring of possible strategic alternatives for us to enhance stockholder value, our common stock closed at $20.31 per share. On December 21, 2006, the last trading day before we announced that our board of directors approved the merger agreement, our common stock closed at $25.45 per share. On [ ], the last trading day before this proxy statement was printed, our common stock closed at [$] per share. You are encouraged to obtain current market quotations for our common stock in connection with voting your shares.

The merger agreement provides that, unless consented to in writing by Buyer, after execution of the merger agreement and prior to the effective time of the merger or termination of the merger agreement in accordance with its terms, we will not declare, set aside or pay any dividend or make any other distribution in respect of our or our subsidiaries capital stock.

QUESTIONS & ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

Q: Why am I receiving these materials?

A: We are providing these proxy materials to you in connection with the solicitation, by our board of directors, of proxies to be voted at the special meeting of stockholders and at any adjournments or postponements thereof. Stockholders are invited to attend the special meeting to be held on [ ] at 10:00 a.m., local time, at our executive offices located at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032. Our proxy materials are being mailed to stockholders of record on or about [ ], 2007.

Q: What am I voting for?

A: We are asking you to vote for the adoption and approval of the merger agreement that we entered into with Buyer Parties on December 22, 2006. As a result of the merger, we will cease to be an independent, publicly-traded company, and will instead continue as a private company and be a wholly-owned subsidiary of Holdings. The adoption and approval of the merger agreement will also constitute approval of the merger and the other transactions contemplated by the merger agreement. Furthermore, you are being asked to vote to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Q: What constitutes a quorum at the special meeting?

A: The presence, in person or by proxy, of stockholders holding a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the special meeting. Both votes cast as ABSTAIN and broker non-votes are counted as present and entitled to vote for the purpose of determining the presence of a quorum.

Q: Does the board of directors of ADESA recommend voting in favor of the merger?

A: Yes. Our board of directors has unanimously (excluding the recused directors Messrs. Gartzke and Sales) approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared that the merger, the merger agreement and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the company and our stockholders. Accordingly, our board of directors unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the adoption and approval of the merger agreement. Our board of directors also unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement. Members of our board of directors considered many factors in reaching this recommendation. See *The Merger Reasons for the Merger,* beginning on page 36.

Q: What stockholder approval is required?

A: Adoption and approval of the merger agreement and the transactions contemplated thereby, including the merger, requires the affirmative vote of a majority of the outstanding shares of our common stock held by stockholders entitled to vote on [ ], 2007, the record date for the special meeting. The proposal to adjourn or postpone the special meeting requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock present or represented by proxy at the special meeting and entitled to vote.

Q: When do you expect the merger to be completed? What is the marketing period ?

A: We are working toward completing the merger as quickly as possible and we hope to complete the merger during the second quarter of 2007. In order to complete the merger, we must obtain stockholder approval and the other closing conditions under the merger agreement must be satisfied or waived. In addition, Buyer Parties are not obligated to complete the merger until the expiration of a 30-consecutive day marketing period that Buyer Parties may use to complete their financing for the merger. The marketing period commences after we have obtained our stockholder approval and the required regulatory approvals, satisfied the other closing conditions under the merger agreement and provided Buyer with certain required financial information in connection with the high-yield debt offering contemplated by Buyer s debt commitment letters. The merger agreement provides that the marketing period will commence no earlier than March 30, 2007 and will last 30 consecutive days, but may be extended or terminated under certain circumstances. To the extent that Buyer does not need the benefit of the marketing period to market and place the high yield debt, it may, in its sole discretion, close the merger prior to the expiration of the marketing period if all of the closing conditions are otherwise satisfied or waived. See *The Merger Agreement Effective Time of the Merger; Marketing Period,* beginning on page 68.

Q: What interests do our directors and executive officers have in recommending adoption and approval of the merger agreement?

A: Our directors and executive officers may have interests in the merger that are different from, or in addition to, the interests of our other stockholders. These interests may include, among other things, the following: (i) receipt of change in control payments and benefits pursuant to change in control agreements if certain executive officers are terminated by us without cause or they resign for good reason within a specified period of time following the consummation of the merger (except with respect to Messrs. Beaver, Lawrence and Sales, who have elected under their respective change in control agreements to terminate employment and receive a lesser amount of the change in control payment, subject only to the consummation of the merger); (ii) severance agreements with certain executive officers so that if their employment is terminated without cause or they resign for good reason before or after the merger, they would be entitled to severance payments and benefits (but if an executive officer elects to receive change in control payments and benefits pursuant to his or her change in control agreement, such executive officer would not be entitled to receive any severance payments and benefits under his or her severance agreement); (iii) payment of a transaction bonus to our interim Chief Financial Officer in connection with the completion of the merger; and (iv) continuation of certain indemnification arrangements for our directors and executive officers. For additional details, including the amounts that may be received by each of our directors and executive officers, see *The Merger Interests of Our Directors and Executive Officer*s *in the Merger,* beginning on page 53.

Q: What will I receive in the merger?

A: If we complete the merger, you will have the right to receive $27.85 in cash, without interest and less any applicable withholding taxes, for each share of our common stock you own unless you properly demand and perfect your appraisal rights as described below under *The Merger Appraisal Rights*, beginning on page 64.

Q: If the merger is completed, when can I expect to receive the merger consideration for my shares of ADESA common stock?

A: Promptly after the completion of the merger, you will receive a letter of transmittal from the paying agent describing how you may exchange your shares of common stock for the merger consideration. You should not send your stock certificates to us or anyone else until you receive these instructions. If

you hold your shares in book-entry form (that is, without a stock certificate) the paying agent will automatically send you the merger consideration in exchange for the cancellation of your shares of common stock after the consummation of the merger. If your shares of common stock are held in street name by your broker or nominee, you will receive instructions from your broker or nominee as to how to surrender your street name shares and receive the merger consideration for those shares.

Q: Will I receive dividends before the effective time of the merger?

A: No. The merger agreement provides that prior to the effective time of the merger, except as contemplated by the merger agreement or consented to in writing by Buyer, we will not pay any dividend or make any other distribution in respect of our or our subsidiaries capital stock.

Q: Do I have dissenters or appraisal rights?

A: Yes. Under the DGCL, stockholders are entitled to appraisal rights in connection with the merger, subject to the conditions discussed more fully below under *The Merger Appraisal Rights,* beginning on page 64. Appraisal rights entitle dissenting stockholders, if such rights are perfected, to receive payment in cash for the fair value of their shares of our common stock. This appraisal amount could be more than, the same as or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement. To preserve your appraisal rights, if you wish to exercise them, you must not vote in favor of the adoption and approval of the merger agreement and you must follow specific procedures. Failure to follow the steps required by law for perfecting appraisal rights may lead to the loss of those rights, in which case the dissenting stockholder will be treated in the same manner as a non-dissenting stockholder. See Annex D for a reproduction of Section 262 of the DGCL, which relates to the appraisal rights of dissenting stockholders. Because of the complexity of law relating to appraisal rights, stockholders who are considering objecting to the merger are encouraged to read these provisions carefully and should consult their own legal advisors.

Q: What happens if I sell my shares of ADESA common stock before the special meeting?

A: The record date for the special meeting is earlier than the expected completion date of the merger. If you transfer your shares of our common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting but will transfer the right to receive the merger consideration to the person to whom you transferred your shares.

Q: Will the merger be taxable to me?

A: Generally, yes. For U.S. federal income tax purposes, if you are a U.S. Holder your surrender of shares of our common stock for cash in the merger generally will cause you to recognize taxable gain or loss measured by the difference, if any, between the amount of cash you receive and your adjusted tax basis in such shares. If you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax (including withholding tax) on any gain recognized upon your surrender of shares of our common stock for cash in the merger, unless you have certain connections to the United States. However, we urge you to consult your own tax advisors to determine your particular tax consequences. For a more complete description of the tax consequences, see *The Merger Material U.S. Federal Income Tax Consequences,* beginning on page 62.

Q: What regulatory approvals are required?

A: The consummation of the merger requires that the waiting period, and any extension thereof, under the HSR Act will have been terminated or will have expired and that all material filings and authorizations legally required to be made or obtained with or from a governmental authority to consummate the merger shall have been made or obtained. On January 24, 2007, the parties obtained

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the required approval under the HSR Act to complete the merger. We are not aware of any approvals that are necessary under foreign antitrust laws.

Q: Who is and how many shares are entitled to vote?

A: Any person who held at least one share of our common stock as of the record date, which is the close of business on [ ], 2007, may vote and all shares of our common stock so held on such date may be voted. You may cast one vote per share of common stock that you held on the record date. These shares include shares that are:

- held directly in your name as the stockholder of record; and
- held for you as the beneficial owner through a stockbroker, bank or other nominee.

On the record date, we had approximately [ ] shares of common stock issued and outstanding.

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

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

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Mellon Investor Services, LLC, referred to in this proxy statement as Mellon, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the special meeting. We have enclosed a proxy card for you to use. You may also vote on the Internet or by telephone, as described below under the heading How can I vote my shares without attending the special meeting?

Beneficial Owner. If your shares are held by a broker, dealer, bank or other financial institution that serves as your nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker or nominee on how to vote and are also invited to attend the special meeting. However, since you are not the stockholder of record, you may not vote those shares in person at the special meeting. Your broker or nominee has enclosed a voting instruction card for you to use in directing your broker or nominee as to how to vote your shares. You may also vote by Internet or by telephone, as described below under the heading How can I vote my shares without attending the special meeting?

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

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

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

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

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

- on the Internet;
- by telephone; or
- by completing and mailing your proxy card or voting instruction card in the enclosed, pre-paid envelope.

Please refer to the proxy card or voting instruction card for more detailed instructions.

If you vote on the Internet or by telephone, you do not need to return your proxy card or voting instruction card. Internet and telephone voting for stockholders will be available 24 hours a day through 11:59 p.m., Eastern Time, on the day prior to the day of the special meeting.

Q. If I am an employee holding shares pursuant to our employee stock purchase plan, how will my shares be voted?

A: If you are an employee holding stock acquired through our employee stock purchase plan, you will receive a voting instruction card covering all shares held in your individual account. The employee stock purchase plan will vote your shares (i) in accordance with the instructions on your returned instruction card; or (ii) in its discretion on the adoption and approval of the merger agreement and the adjournment or postponement of the special meeting in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement, if you do not return an instruction card or if you return an instruction card with no instructions.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, you will receive written instructions for exchanging your stock certificates for cash. Please do not send in your stock certificates with your proxy. If you do not hold a physical certificate evidencing your ownership of our common stock, you will receive the merger consideration after consummation of the merger in accordance with the procedures of the paying agent.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement, including the annexes, please complete, date and sign your proxy card or voting instruction card and return it in the enclosed return envelope or use the telephone number or Internet voting instructions printed on your proxy card or voting instruction card to vote as soon as possible so that your shares may be represented at the special meeting. If you sign and send in your proxy card or voting instruction card but do not indicate how you want to vote, we will count your proxy card or voting instruction card in favor of adoption and approval of the merger agreement and in favor of adjourning or postponing the special meeting in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement. You can also attend the special meeting and vote, or change your prior vote, in person.

Q: What if I don t vote?

A: If you do not vote, you abstain from voting, or you do not instruct your broker, dealer, bank or other financial institution on how to vote if you hold your shares in street name, it will have the same effect as a vote against the adoption and approval of the merger agreement. Therefore, we urge you to vote.

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If you do not vote, you abstain from voting, or you do not instruct your broker, dealer, bank or other financial institution on how to vote if you hold your shares in street name, it will not affect the outcome of the vote on the proposal regarding the adjournment or postponement of the special meeting.

However, abstention from voting or failure to execute a proxy with respect to adoption and approval of the merger agreement will not be sufficient to constitute a vote against the merger for the purpose of asserting appraisal rights. See Annex D for a reproduction of Section 262 of the DGCL, which relates to the appraisal rights of dissenting stockholders.

Q: Can I revoke my proxy?

A: Yes, you can revoke your proxy at any time before it is voted at the special meeting. If you are a record holder of our common stock, you may revoke your proxy before it is voted by:

- giving notice of revocation to our Corporate Secretary in writing which is dated a later date than your proxy;
- submitting a duly executed proxy bearing a later date;
- submitting a new proxy by telephone or through the Internet at a later time, but not later than [ ] or the business day before the meeting date, if the special meeting is adjourned or postponed; or
- attending the special meeting and voting in person.

If your shares are held in street name, you should follow the instructions of your broker, dealer, bank or other financial institution that serves as your nominee regarding revocation of proxies. Simply attending the special meeting without voting will not constitute revocation of a duly executed proxy. See *The Special Meeting Revocation of Proxies* on page 22.

Q: How can I obtain admission to the special meeting?

A: You are entitled to attend the special meeting only if you were one of our stockholders as of the close of business on [ ], 2007, the record date for the special meeting, or hold a valid proxy for the special meeting. You should be prepared to present photo identification for admittance. In addition, if you are a record holder, your name is subject to verification against the list of record holders on the record date prior to being admitted to the special meeting. If you are not a record holder but hold shares in street name, you should be prepared to provide proof of beneficial ownership on the record date, such as your most recent account statement prior to the record date, or similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the special meeting.

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

A: It means your shares are registered differently or are in more than one account. To make sure all of your shares of our common stock are voted, please provide voting instructions for all proxy cards and voting instruction cards you receive.

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

A: We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic and facsimile transmission by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We have hired Georgeson Inc., referred to in this proxy statement as Georgeson, to assist in the solicitation and distribution of proxies. Georgeson will receive a fee of $8,500, plus reasonable

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expenses and charges, for these services. In addition, we may reimburse brokerage firms, including Georgeson, and other persons representing beneficial owners of shares of our common stock for their expenses in forwarding solicitation material to such beneficial owners.

Q: Who will count the vote?

A: A representative of Mellon will tabulate the votes and act as the inspector of election.

Q: Who can help answer my questions?

A: If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact our solicitation agent, Georgeson, or our Investor Relations Department:

Georgeson Inc.
17 State Street, 10th Floor
New York, New York 10004
(866) 425-8154
(212) 440-9800 (for brokers or nominees)

Investor Relations
ADESA, Inc.
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
(800) 923-3725

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you to in this proxy statement, contain forward-looking statements based on estimates and assumptions. There are forward-looking statements throughout this proxy statement. These statements may include statements regarding the expected timetable for completing the merger, the benefits of the proposed merger and any other statements about future expectations, benefits, goals, plans or prospects.

Words such as may, could, anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar subst connection with any discussion identify forward-looking statements. All forward-looking statements are based on present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include:

- our financial performance through the date of the completion of the merger;
- the failure to obtain the necessary debt financing arrangements set forth in the debt commitment letters received in connection with the merger;
- the satisfaction of the closing conditions set forth in the merger agreement, including our stockholders approval of the merger and regulatory approvals of the merger;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement, including a termination under circumstances that could require us to pay a $40 million termination fee;
- the outcome of any legal proceeding instituted against us and/or others in connection with the merger;
- the loss of key customers and strategic partners as a result of our announcement of the proposed merger;
- the effect of the announcement of the merger on our business relationships, operating results and business generally, including our ability to retain key employees;
- business uncertainty and contractual restrictions that may exist during the pendency of the merger;
- any significant delay in the expected completion of the merger;
- the amount of the costs, fees, expenses and charges related to the merger and the final terms of the financing that will be obtained in connection with the merger;
- the diversion of management s attention from ongoing business concerns;

and other risks set forth in our current filings with the SEC, including our most recent Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. See *Where You Can Find More Information* on page 98. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only of the date of this proxy statement. We are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

THE SPECIAL MEETING

General

This proxy statement is being delivered to you in connection with a special meeting of stockholders to be held on [ ], 2007, at 10:00 a.m., local time, at our executive offices located at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032. The purpose of the special meeting is for our stockholders to consider and vote upon a proposal to adopt and approve the merger agreement we entered into with Buyer Parties on December 22, 2006. At the special meeting you also will be asked to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Our board of directors has unanimously (excluding the recused directors Messrs. Gartzke and Sales) approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared that the merger, the merger agreement and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the company and our stockholders. Accordingly, our board of directors unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the adoption and approval of the merger agreement. Our board of directors also unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement. See *The Merger Recommendation of Our Board of Directors* on page 40.

Record Date

Our board of directors has fixed the close of business on [ ], 2007 as the record date for the determination of stockholders entitled to notice of and to vote at the special meeting. As of the record date, there were [ ] shares of our common shares outstanding. There were approximately [ ] record holders of our common stock as of the record date, although we believe there are a greater number of beneficial holders.

Each holder of record of our common stock at the close of business on the record date is entitled to one vote for each share then held on each matter submitted to a vote of stockholders. If your shares are held by a broker, dealer, bank or other financial institution that serves as your nominee, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your broker or nominee on how to vote and are also invited to attend the special meeting. See *Method of Voting* on page 21, and *Special Meeting Admission Procedures* on page 23.

Vote Required for a Quorum and Adoption and Approval of the Proposals, Effect of Abstentions and Broker Non-Votes

A quorum is required for our stockholders to conduct business at the special meeting. The holders of a majority of the shares of our common stock entitled to vote on the record date, present in person or represented by proxy, will constitute a quorum for the transaction of business at the special meeting. Under the DGCL, abstaining votes and broker non-votes are counted as present and are, therefore, included for purposes of determining whether a quorum of shares is present for the merger proposal and the proposal relating to adjournment or postponement of the special meeting.

Under the DGCL, the affirmative vote of a majority of the outstanding shares of our common stock entitled to vote on the record date is required to adopt and approve the merger agreement and the transactions contemplated by the merger agreement, including the merger. An abstention is counted as a share present and entitled to be voted at the special meeting and will have the same effect as a no vote on the merger proposal. A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular matter because the broker or nominee does not have the discretionary voting power with respect to that matter and has not received instructions from the beneficial owner. With respect to the merger proposal, a broker or nominee who holds shares for a beneficial owner is prohibited from giving a proxy to vote the beneficial owner s shares without instructions from the beneficial owner. As a result, a broker non-vote also will have the same effect as a no vote on the merger proposal.

The proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock present or represented by proxy at the special meeting and entitled to vote on the matter. Abstentions and broker non-votes will not count as shares present and entitled to vote on the proposal to adjourn or postpone the special meeting. As a result, abstentions and broker non-votes will have no effect on the vote to adjourn or postpone the special meeting.

Method of Voting

Our stockholders are being asked to vote the shares held directly in their name as stockholders of record and any shares they hold in street name as beneficial owners. Shares held in street name are shares held by a broker, dealer, bank or other financial institution that serves as a stockholder s nominee.

The method of voting differs for the shares held by a record holder and the shares held in street name. Record holders will receive proxy cards. Holders of shares in street name will receive voting instruction cards in order to instruct their nominees on how to vote.

Our stockholders may also vote by proxy by using the telephone or the Internet. For specific instructions on how to use the telephone or the Internet to vote by proxy, please refer to the instructions on your proxy card or voting instruction card.

If you are a stockholder of record, you may also vote in person at the special meeting. If you hold shares in street name, you may not vote in person at the special meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. You will also need to present photo identification and comply with the other procedures described in *Special Meeting Admission Procedures* on page 23.

Stockholders may receive multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, stockholders who hold shares in more than one brokerage account will receive a separate voting instruction card for each brokerage account in which shares are held. Stockholders of record whose shares are registered in more than one name will receive more than one proxy card.

Stockholders should not forward any stock certificates with their proxy cards or voting instruction cards. In the event the merger is completed, stock certificates should be delivered in accordance with instructions set forth in a letter of transmittal, which will be sent to stockholders by the paying agent promptly after the effective time of the merger.

Read the proxy card(s) and voting instruction card(s) carefully. A stockholder should execute all the proxy card(s) and voting instruction card(s) received in order to make sure all of your shares are voted.

Grant of Proxies

All shares of our common stock represented by properly executed proxy cards or voting instruction cards received before or at the special meeting will, unless the proxies or voting instructions are revoked, be voted in accordance with the instructions indicated on those proxy cards or voting instruction cards.

You are urged to mark the boxes on the proxy card or the voting instruction card, as the case may be, to indicate how to vote your shares. If no instructions are indicated on a properly executed proxy card or voting instruction card, the shares will be voted FOR the adoption and approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, FOR the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

We are not aware of any matter other than (i) the adoption and approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and (ii) the approval of the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement, that will be brought before the special meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless their authority to do so is specifically withheld on the proxy card or the voting instruction card, as the case may be.

Revocation of Proxies

You may revoke your proxy at any time before it is voted by:

- if you are a record holder of our common stock:

- giving notice of revocation in writing to our Corporate Secretary at 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032 dated a later date than your proxy;

- submitting a duly executed proxy card bearing a later date by mail to our Corporate Secretary or Georgeson, our solicitation agent;

- submitting a new proxy by telephone or through the Internet at a later time, but not later than [ ] or the business day before the meeting date, if the special meeting is adjourned or postponed; or

- attending the special meeting and voting in person; or

- if you hold shares of our common stock in street name, that is, with a broker, dealer, bank or other financial institution that serves as your nominee, follow the instructions from such nominee on how to revoke or modify your voting instructions.

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

Solicitation of Proxies

We will pay the expenses incurred in connection with the printing and mailing of this proxy statement. We also have retained Georgeson to assist in the solicitation of proxies at an estimated cost of $8,500 plus reasonable expenses and charges. We will also request brokers, dealers, banks and other financial institutions holding shares of our common stock beneficially owned by others to send this proxy statement to, and obtain proxies from, the beneficial owners, and will reimburse the holders for their reasonable expenses. Solicitation of proxies by mail may be supplemented by telephone and other electronic means, advertisements and personal solicitation by our directors, officers or employees. No additional compensation will be paid to our directors, officers or employees for such solicitation.

Adjournment or Postponement of Meeting

We are asking our stockholders to vote on a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are insufficient votes at the time of the special meeting to adopt and approve the merger agreement. Our bylaws permit any adjournments or postponements to be made to a date not more than 30 days after the original meeting date without notice, other than by an announcement at the special meeting, by the affirmative vote of a majority of the votes cast on the proposal, whether or not a quorum exists. If the adjournment or postponement is for more than 30 days, or if after the adjournment or postponement a new record date is fixed for the adjourned or postponed meeting, notice of the adjourned or postponed meeting will be given to each stockholder of record entitled to notice of and to vote at the meeting. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow stockholders who have already sent in their proxies to revoke them at any time prior to their exercise.

Special Meeting Admission Procedures

You should be prepared to present photo identification for admittance at the special meeting. In addition, if you are a record holder of our common stock, your name is subject to verification against the list of record holders of our common stock on the record date prior to being admitted to the special meeting. If you are not a record holder but hold shares in street name, that is, with a broker, dealer, bank or other financial institution that serves as your nominee, you should be prepared to provide proof of beneficial ownership on the record date, such as your most recent account statement prior to the record date, or similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the special meeting.

THE PARTIES TO THE MERGER

ADESA, Inc.

ADESA, Inc.
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
(800) 923-3725

We are North America s largest publicly-traded provider of wholesale vehicle auctions and used vehicle dealer floorplan financing. Our operations span North America with 54 used vehicle auction sites, 42 impact salvage vehicle auction sites and 85 Automotive Finance Corporation loan production offices. We are the second largest used vehicle auction network in North America, based upon the number of used vehicles passing through auctions annually. In addition, through our wholly-owned subsidiary Automotive Finance Corporation, we provide short-term inventory-secured financing, known as floorplan financing, primarily to used vehicle dealers. We are able to serve the diverse and multi-faceted needs of our customers through the wide range of services offered at our facilities.

KAR Holdings II, LLC

KAR Holdings II, LLC
c/o Kelso & Company
320 Park Avenue, 24th Floor
New York, New York 10022
(212) 751-3939

KAR Holdings II, LLC, which we refer to as Buyer, is a newly formed Delaware limited liability company. Buyer was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement, including the related financing transactions. Buyer has not engaged in any business except activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the financing thereof. Buyer is an entity controlled by the Equity Sponsors. It is anticipated that concurrently with the consummation of the merger, Kelso and Parthenon will cause Axle Holdings II, LLC, a Delaware limited liability company, to contribute, directly or indirectly, all of the stock it owns in Axle Holdings, Inc., a Delaware corporation, to Buyer. As a result of this contribution and related transactions, Buyer will own, directly or indirectly, all of the outstanding capital stock of IAAI, a leader in automotive total loss and specialty salvage services in the United States that provides insurance companies with cost-effective, turn-key solutions to process and sell total-loss and recovered-theft vehicles. IAAI currently has 95 sites across the United States.

KAR Holdings, Inc.

KAR Holdings, Inc.
c/o Kelso & Company
320 Park Avenue, 24th Floor
New York, New York 10022
(212) 751-3939

KAR Holdings, Inc., which we refer to as Holdings, is a newly organized Delaware corporation and a wholly-owned subsidiary of Buyer. Holdings was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement, including the related financing transactions. Holdings has not engaged in any business except activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the financing thereof.

KAR Acquisition, Inc.

KAR Acquisition, Inc.
c/o Kelso & Company
320 Park Avenue, 24th Floor
New York, New York 10022
(212) 751-3939

KAR Acquisition, Inc., which we refer to as Merger Sub, is a newly organized Delaware corporation and an indirect wholly-owned subsidiary of Buyer. Merger Sub was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement, including the related financing transactions. Merger Sub has not engaged in any business except activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the financing thereof. Upon completion of the merger, Merger Sub will cease to exist and we will continue as the surviving corporation.

THE MERGER

Background of the Merger

As part of our ongoing strategic planning process, our board and management have regularly evaluated our business and operations, competitive position, long-term strategic goals and alternatives with a goal of enhancing stockholder value. Although we have achieved many financial performance goals since our initial public offering in June 2004, certain initiatives that management considers important to our long-term success, including substantial capital investment in e-business, information technology, facility relocations and expansions, as well as operating initiatives designed to enhance overall efficiencies through centralization and standardization, have significant risks associated with their execution, could take several years to yield any direct monetary benefits to our stockholders and may depress the market price of our common stock in the interim.

In March 2005, the Chief Executive Officer of one of our competitors, referred to in this proxy statement as the Strategic Buyer, contacted David G. Gartzke, our Chairman of the Board and Chief Executive Officer, expressing his company s interest in exploring strategic opportunities with us. The Strategic Buyer is not affiliated with any of the Equity Sponsors.

During the spring of 2005, Mr. Gartzke had preliminary exploratory conversations with the Chief Executive Officer of the Strategic Buyer about various strategic opportunities. During the course of these preliminary conversations, discussions evolved into a consideration of a potential business combination of the two companies. We retained UBS Securities LLC, referred to in this proxy statement as UBS, to advise us in connection with a potential business combination with the Strategic Buyer.

In May 2005, members of our executive management and the executive management of the Strategic Buyer, and representatives of UBS and the financial advisor of the Strategic Buyer met to discuss the preliminary terms of a business combination, including structure and purchase price. Preliminary discussions between representatives from UBS and the Strategic Buyer s financial advisor continued throughout May and June 2005.

On June 24, 2005, we entered into a formal agreement with UBS to act as our financial advisor in connection with a potential business combination with the Strategic Buyer.

On June 24, 2005, our board met with representatives from UBS to review the preliminary terms of the business combination communicated to UBS by representatives from the Strategic Buyer s financial advisor, which contemplated an exchange of stock, no cash consideration and little or no premium over the then market price of our common stock. Mr. Gartzke also provided the board with a summary of the chronology of events that led to preliminary discussions with the Strategic Buyer. Representatives from UBS discussed the strategic rationale for contemplating a business combination. Our board reviewed with executive management and UBS our future growth rates and projected valuations and discussed the fair value of our assets and operations. Our board analyzed the potential benefits and risks of such a business combination, reviewed the technology platforms of both companies and considered the relative valuations of each company and the accretion and dilution impact of the business combination. After further discussion, our board determined that, based upon the information available at the time, including the terms of the preliminary indication of interest communicated to representatives from UBS, and the analysis provided by UBS and executive management, it did not believe it was in our or our stockholders best interests to pursue a potential combination with the Strategic Buyer at the time. Our board then requested that representatives from UBS communicate its position to representatives from the Strategic Buyer s financial advisor. Subsequently, representatives from UBS communicated our board s position to representatives from the Strategic Buyer s financial advisor. Following such communications, there were no further substantive discussions between the parties regarding a potential business combination.

On July 27, 2005, at a regularly scheduled meeting of our board of directors, executive management reviewed for the board the interests of third parties in our salvage auction business and informed the board that a meeting would be held on August 23, 2005 with representatives from IAAI and Kelso to discuss the potential combination of IAAI and our salvage auction business.

On August 18, 2005, we executed a confidentiality agreement with Kelso to enable us to explore potential business opportunities between IAAI and our salvage auction business.

On August 23, 2005, members of our executive management and representatives from Kelso and IAAI met to discuss a potential joint venture or business combination of IAAI and our salvage auction business.

UBS continued its role as our financial advisor in connection with the business opportunities presented by IAAI and Kelso. In that regard, during late 2005 through early 2006, representatives from UBS met with representatives from Kelso and IAAI on two occasions to preliminarily discuss the structure of a joint venture or business combination of the respective salvage auction businesses and high-level matters associated with operations and valuation of the respective salvage auction businesses. At various times during late 2005 through early 2006, we exchanged limited high-level, non-public information about each other s salvage auction business. Discussions between representatives from UBS and representatives from Kelso and IAAI terminated in May 2006 without reaching any agreement about a potential joint venture or business combination of the respective salvage auction businesses. In late July 2006, we executed an updated confidentiality agreement with Kelso, and IAAI subsequently provided certain high-level pro forma financial information about its salvage auction business to us, but no further substantive discussions ensued.

In early 2006, we also requested that UBS prepare a preliminary assessment of the strategic alternatives available to us.

On April 28, 2006, our board met with representatives from UBS to review various strategic alternatives available to us, including a possible sale of the company. At the meeting our board assessed the opportunities, risks and challenges presented by each alternative.

In July 2006, our board met for two days to assess our business plan, long-term growth and the various strategic opportunities available to us. On July 25, 2006, the first day of the two-day board meeting, our board engaged in a customary review of our business operations, results of operations and financial performance. In addition, Ron Beaver, our Chief Information Officer, provided an overview of our current information technology infrastructure, proposed initiatives relating to the same and discussed the impact of such initiatives on our business plan and long-term growth.

On July 26, 2006, the board meeting continued, and Mr. Gartzke, A. R. Sales, our President and Chief Operating Officer and Timothy C. Clayton, our Chief Financial Officer, reviewed our five-year plan with our board. Messrs. Gartzke, Sales and Clayton discussed, among other things, the risks and challenges associated with our existing business plan and prospects, as well as the opportunities that such plans presented to us. They discussed the fact that our financial projections contemplate significant capital investments, which include, among other things, substantial capital investment in e-business, information technology and facility relocations, expansions and other strategic initiatives. They also discussed the inherent risk that we would not be able to successfully complete all or a portion of the planned capital investments, which could adversely impact our future financial condition and depress the future market price of our common stock. Representatives from UBS reviewed various strategic opportunities available to us, in a presentation similar to the one it reviewed with our board during the April 28, 2006 meeting. In reviewing these opportunities, our board considered, among other things, the potential price of our common stock in the future, assuming the successful completion of our planned investments, discounted to present value. After reviewing the broad range of alternatives in detail, our board concluded that a sale process could result in a value-maximizing alternative to our stockholders and authorized UBS to explore the potential sale of the company and initiate contact with potential buyers to solicit their interest in a prospective business combination with us. During this meeting, George J. Lawrence, our General Counsel, discussed with our board the potential conflicts of interest inherent in having UBS provide potential bidders with financing commitments in connection with a possible sale of the company, as it had expressed an interest in doing so. In light of the potential conflict, the board authorized executive management to explore the engagement of a separate financial advisor to provide an opinion with respect to the fairness, from a financial point of view, of the consideration to be received by our stockholders in a possible business combination.

On July 31, 2006, we engaged Morrison & Foerster LLP, referred to in this proxy statement as Morrison & Foerster, to act as our legal advisor in connection with the sale process.

During the month of August 2006, members of our executive management and representatives from UBS worked to prepare marketing materials for the sale process, including a summary overview of the business, a detailed Confidential Information Memorandum and a management presentation.

On August 30, 2006, our board held a telephonic meeting during which our board discussed the negotiated terms of engagement and formally approved the engagement of UBS as our financial advisor in connection with the sale process.

On August 31, 2006, we entered into a formal agreement with UBS to act as our financial advisor in connection with the sale process.

From September 5, 2006 through September 18, 2006, representatives from UBS contacted, on a confidential basis, 17 private equity firms in the first phase of the bidding process to solicit interest in a possible acquisition of us. Three of the 17 potential bidders had contacted UBS prior to any solicitation by UBS to express their interest in a potential acquisition of our company. Each potential bidder was provided with a form of confidentiality agreement that contained a customary standstill provision which, among other things, prevented the bidder and its representatives from acquiring our common stock or participating in a proxy solicitation regarding us without our consent.

On September 11, 2006, UBS distributed an initial bid package to ten of the 17 potential bidders (including Kelso and GSCP), each of which had executed a confidentiality agreement. Over the next several weeks, each of the remaining seven potential bidders executed a confidentiality agreement and received the initial bid package. The initial bid package included the Confidential Information Memorandum and a process letter that requested that bidders submit an initial indication of interest by September 25, 2006.

During September 2006, we also attempted, with assistance from representatives from UBS and Morrison & Foerster, to negotiate confidentiality agreements with two additional potential bidders, one of whom was a strategic buyer. However, we were unsuccessful in finalizing the confidentiality agreements with them and, therefore, they did not receive an initial bid package or participate in the bidding process.

During the week of September 18, 2006, at our request, representatives from UBS orally provided to all of the potential bidders, for purposes of submitting a preliminary bid, the indicative total size and key terms of the financing package UBS was preparing at the request of our board.

On September 25, 2006, we received nine preliminary bids. Eight of the 17 potential bidders initially contacted by representatives from UBS declined to submit a preliminary bid. The eight bidders cited various reasons, including the inability to invest without a strategic partner, the inability to pay an appropriate premium and a relative lack of experience in the industry, among other things, as reasons for their withdrawal.

On September 26, 2006, our board held a telephonic meeting to review the initial indications of interest received by us and to determine whether to continue the sale process, and if so, when it would invite bidders to participate in the next round of bidding. After discussion and consultation with representatives from UBS and Morrison & Foerster and in consideration of the terms and the range of valuations proposed in the preliminary bids, our board decided to invite five of the nine bidders that submitted a preliminary bid to participate in the second phase of the process. Following the meeting, representatives from UBS had several conversations with Kelso, which initially was not selected by our board to remain in the process, which led Kelso to substantially revise upward its preliminary bid. As a result, Kelso also was permitted to participate in the second phase of the process. During such follow-up conversations, Kelso also communicated to UBS that it would need to partner with a few additional private equity funds to submit a final bid and disclosed GSCP as a potential partner. At our instruction, UBS authorized Kelso to have discussions with GSCP about the potential transaction and provided Kelso with the names of a few additional private equity funds that communicated to UBS that they respectively needed additional partners to submit a final bid.

Commencing in late September 2006 and after receipt of the initial indications of interest, in accordance with the terms of the confidentiality agreement, we made certain non-public information available to the potential bidders participating in the second phase through an on-line data room in order to facilitate each bidder s valuation analysis. We supplemented the information available in the on-line data room from time to time during the bidding process.

In October 2006, a representative from UBS received a telephone call from a representative from the Strategic Buyer s financial advisor. This representative inquired about a rumor regarding a potential sale of the company. The UBS representative did not deny or affirm the rumor and told the representative from the Strategic Buyer s financial advisor to call him back if the Strategic Buyer had a desire to make a new proposal to our board for a potential business combination. The representative from the Strategic Buyer s financial advisor said he would communicate this message to the Strategic Buyer. UBS did not hear anything further from the Strategic Buyer s financial advisor or the Strategic Buyer.

On October 2, 2006, ValueAct contacted UBS expressing its interest in a potential acquisition of our company. We executed a confidentiality agreement with ValueAct on October 4, 2006 and it subsequently was provided with an initial bid package.

On October 6, 2006, at our request, representatives from UBS provided additional terms of its prospective financing commitment to the six bidders in the second phase of the process.

On October 9, 2006, representatives from UBS were notified that Kelso and GSCP had partnered with each other in contemplation of submitting a final bid.

On October 12, 2006, ValueAct submitted a preliminary bid, which was within the range of the six bids initially selected by our board to continue in the process, and ValueAct was invited to participate in the second phase of the bidding process. The submission of ValueAct s bid concluded the first phase of the bidding process and raised the total number of potential bidders in the first phase of the bidding process to 18 and raised the total number of potential bidders in the second phase to seven.

On October 19, 2006, UBS provided the seven bidders with a final bid instruction letter, which included the draft merger agreement and form of limited guarantee prepared by Morrison & Foerster. The letter stated that final bids would be due on November 8, 2006.

During the remainder of October 2006, our executive management met with representatives of six bidders, including Kelso, GSCP and ValueAct, to discuss our business, operations, plans, budgets and forecasts, and to answer questions regarding these matters. During this time, representatives from two of the bidders, who did not ultimately submit a final bid, visited our operations in Framingham, Massachusetts. In addition, representatives of two of the bidders, including Kelso, reviewed certain of our material contracts at Morrison & Foerster s New York office. Further, six of the bidders held follow-up phone calls with us with respect to their business, legal, accounting and financing diligence.

Representatives from two of the bidders, including Kelso, also visited the offices of PriceWaterhouseCoopers, our former independent auditors, to review workpapers relating to the audit of our 2005 consolidated financial statements included in our 2005 Annual Report on Form 10-K.

On October 24, 2006, Deborah L. Weinstein, our lead director, Messrs. Gartzke, Clayton and Lawrence, and a representative from Morrison & Foerster interviewed three leading financial advisory firms to select an independent financial advisor for purposes of advising our board on the fairness, from a financial point of view, of the consideration to be received by our stockholders in any transaction.

On October 26, 2006, our board held a meeting to discuss the status of the second phase of the process. Representatives from UBS informed the board that three of the seven bidders invited to participate in the second phase had withdrawn from the process. The reasons provided by the three withdrawing bidders included uncertainty about the risks associated with our projected growth, the inability to meet the range of valuation set forth in their preliminary bid and the preference to act as a supporting partner in a potential business combination. Representatives from UBS also noted that Kelso had requested permission to partner with ValueAct and Parthenon, and UBS, at our instruction, had authorized Kelso to have discussions with ValueAct and Parthenon, in addition to GSCP, about the potential transaction in submitting a final bid. In connection with the discussion about the status of the second phase of the process, a member of executive management inquired about the merits of soliciting the Strategic Buyer for inclusion in the process. Our board then considered the explanation of the UBS representatives to the effect that, based on UBS discussions with the Strategic Buyer in the summer of 2005, the Strategic Buyer s firm position against any leveraged transaction, a review of the Strategic Buyer s publicly available balance sheet information and the proposed valuation of our company indicated in the preliminary bids, UBS did not believe that soliciting the Strategic Buyer for inclusion in the sale process would productively enhance stockholder value. Also at this meeting, members of executive management and a representative of Morrison & Foerster summarized for our board their discussions with the three leading financial advisory firms regarding their possible engagement by us for purposes of advising our board on the fairness, from a financial point of view, of the consideration to be received by our stockholders in any transaction. After further discussion, in light of the potential conflicts of interest in having UBS provide potential bidders with financial commitments, our board determined that it was in our and our stockholders best interests to engage a second financial advisor to undertake an analysis of and render an opinion as to the fairness, from a financial point of view, of the consideration to be received by our stockholders in connection with a possible business combination. As a result, our board instructed our executive management to negotiate the terms on which Credit Suisse would be engaged by us.

Subsequent to our October 26, 2006 board meeting, another bidder withdrew from the process, citing reasons relating to valuation, resulting in the withdrawal in total of four out of the seven bidders invited to participate in the second phase.

On October 27, 2006, representatives from UBS were notified that Kelso, GSCP, ValueAct and Parthenon had partnered with each other in contemplation of submitting a final bid.

On November 1, 2006, we engaged Credit Suisse to analyze and render to our board an opinion as to the fairness, from a financial point of view, of the consideration to be received by our stockholders in any possible business combination. Following this engagement, management kept Credit Suisse informed of all material aspects of the process relating to the proposed merger and provided Credit Suisse with access to the information, materials and personnel requested by Credit Suisse to undertake its financial analysis. Between the date of their engagement and December 22, 2006, Credit Suisse had various discussions with our management and participated in certain meetings of our board in connection with the proposed merger.

On November 2, 2006, Mr. Gartzke and representatives from UBS met with representatives from Kelso and GSCP at Kelso s offices in New York City to discuss our operations and the strategic direction of our business.

On November 3, 2006, Mergermarket, a subscription-only financial publication, posted a story on its website stating that, according to anonymous sources, ADESA was having informal discussions with several private equity firms about potentially taking the company private and that the company was for sale. We did not publicly respond to or comment on this press release given the then uncertain status of the bidding process.

We did not receive any bids on November 8, 2006, the deadline for the submission of final bids noted in the final process letter that UBS distributed to the remaining second phase bidders.

On November 8, 2006, UBS received a letter from one of the two remaining bidders stating that it was withdrawing from the process because it was unable to consummate the proposed transaction in the range of valuation proposed in its preliminary bid letter.

In the early morning of November 10, 2006, we received a bid from Kelso on behalf of the Equity Sponsors. The bid contemplated the acquisition of our company for $27.00 in cash per share of our common stock. The bid contemplated a suspension of our dividend after the signing of a definitive merger agreement and anticipated lower than projected capital expenditures in the fourth quarter of 2006. The bid further contemplated that following the merger, we would be combined with IAAI, which is owned by two of the Equity Sponsors (Kelso and Parthenon), members of IAAI s senior management and other third party investors. The bid letter stated that Kelso had received debt and equity financing commitments sufficient to fund the contemplated business combination and that the offer contained in the letter would expire on November 30, 2006. A mark-up of the merger agreement accompanied the bid letter.

On November 10, 2006, our board held a meeting to evaluate the bid and invited our executive management and representatives from Morrison & Foerster, UBS and Credit Suisse to participate. A representative from Morrison & Foerster reviewed a memorandum the firm prepared discussing our board s fiduciary duties. At the outset of the meeting, Mr. Gartzke informed our board that, based upon the advice of counsel, he and Mr. Sales were recusing themselves from the meeting and any other board deliberations with respect to any potential acquisition, except and to the extent that they would be available on an ongoing basis in their roles as executive officers of the company to respond to board inquiries for information regarding company operations and strategy. During this meeting, representatives from Credit Suisse reviewed with our board an overview of the methodologies typically used by Credit Suisse in its analysis of the fairness, from a financial point of view, of the consideration to be received by stockholders in a business combination transaction. Our board then discussed with representatives from Morrison & Foerster and UBS the Equity Sponsor s proposed acquisition of our company at $27.00 per share of common stock. Based upon this discussion, our board instructed UBS to communicate to Kelso that an offer price of $27.00 per share was inadequate.

On November 10, 2006, in consideration of the recusal of Messrs. Gartzke and Sales from any future board deliberations and negotiations with respect to any potential acquisitions and upon instruction from our board, a representative from Morrison & Foerster instructed UBS in writing to communicate to Kelso as the representative of the Equity Sponsors that future communications regarding the sale process with us should be addressed to Messrs. Clayton and Lawrence. UBS communicated these instructions to Kelso accordingly.

On November 12, 2006, Mr. Lawrence, Rebecca C. Polak, our Associate General Counsel, Mr. Clayton and representatives from Morrison & Foerster and UBS reviewed the Equity Sponsors mark-up of the merger agreement and discussed among themselves the material aspects of their bid, including the structure of the transaction as a combination with IAAI (including the impact of the combination on the timing and certainty of the closing of the transaction), merger consideration, equity and debt financing commitments, the conditionality of the bid (including the financing condition to closing, the requirement that certain representations and warranties be true and correct in all respects as of the closing and the ability of Buyer Parties to walk away from the transaction if more than 10% of our stockholders dissent and seek appraisal remedies), the absence of a guarantee from the Equity Sponsors (which would significantly limit our ability to recover damages from any of Buyer Parties, each of which is a shell entity formed solely for the purpose of completing the proposed business combination), termination provisions, covenants of the parties, conduct of our business pending the closing of the transaction and the representations and warranties that we were requested to provide.

On November 14, 2006, representatives from UBS were contacted by representatives from Kelso, who indicated that they, on behalf of the other Equity Sponsors, were not prepared to increase their original offer price by more than $0.25 per share. During this conversation, at our request, representatives from UBS had further discussions with Kelso regarding certain key issues relating to the mark-up of the merger agreement provided by the Equity Sponsors in an effort to improve the transaction terms.

On November 15, 2006, after further discussions with UBS in which UBS requested that Kelso submit its best and final offer, the Equity Sponsors increased their offer price from $27.00 to $27.75 per share of common stock.

On November 16, 2006, our board held a telephonic meeting with executive management, representatives from Morrison & Foerster and UBS to discuss the status of the negotiations with the Equity Sponsors. Messrs. Gartzke and Sales recused themselves from the substantive discussions about the status of the negotiations with the Equity Sponsors. Representatives from Morrison & Foerster informed our board that, as instructed by our board, they had contacted Skadden, Arps, Slate, Meagher & Flom LLP, referred to in this proxy statement as SASM&F, outside legal counsel to Kelso and the other Equity Sponsors, to negotiate the terms of a definitive merger agreement, but that certain fundamental business issues remained unresolved, including the uncertainty of the combination with IAAI and the impact of the combination on the timing and certainty of the closing of the transaction, the absence of a guarantee from the Equity Sponsors and the proposed financing condition to closing. Representatives from Morrison & Foerster further informed our board that the offer price was not discussed during any of their communications with SASM&F. Our board next discussed the likelihood of obtaining a higher offer price from the Equity Sponsors or another potential acquirer. As a result of this discussion and upon consultation with representatives from UBS, our board instructed UBS to contact, for a second time, a prominent publicly-traded third-party investment firm that earlier had elected not to participate in the bid process, to solicit such third-party s interest in engaging in a business combination with us.

Later that same day, representatives from UBS contacted the third-party investment firm and inquired as to whether it would be interested in pursuing an acquisition of our company and if so, on what terms. The third party subsequently responded that it was not interested in pursuing a business combination with us at such time because it would be unable to make an offer at the then current market price of our common stock of $26.40, let alone at a premium above that share price. Representatives from UBS also contacted representatives from Kelso, who agreed to discuss certain of the outstanding terms of the draft merger agreement with our executive management and representatives from Morrison & Foerster.

On November 17, 2006, members of our executive management and representatives from each of Morrison & Foerster; UBS; Kelso; SASM&F; GSCP; Fried, Frank, Harris, Shriver & Jacobson, LLP, outside legal counsel to GSCP; ValueAct; and Dechert LLP, outside legal counsel to ValueAct, convened on a telephone call to discuss certain aspects of the bid. Among other things, the parties discussed the fact that IAAI was late in filing its Quarterly Report on Form 10-Q for the third quarter of 2006 and such delay was due, in part, to a change in IAAI s accountants and the impact this delay would have on the timing of the closing of the proposed merger and the likelihood that the closing would occur. Kelso s representatives

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stressed that the combination of our company with IAAI was a fundamental component of the bid and that the offer price incorporated the anticipated synergies that would be generated by the combined entity.

On November 22, 2006, representatives from UBS received revised debt commitment letters from SASM&F on behalf of the Equity Sponsors, which UBS distributed to us and our advisors.

On November 28, 2006, representatives from UBS and Kelso had a telephone call to discuss certain issues associated with the Equity Sponsors mark-up of the merger agreement, including matters relating to the financing condition to closing, the absence of a guarantee from the Equity Sponsors, the impact of the combination with IAAI on the timing and the length of the marketing period.

On November 29, 2006, representatives from Morrison & Foerster and SASM&F had a telephone call to discuss similar issues raised during the call between UBS and Kelso on the prior day.

On December 1, 2006, our board held a telephonic meeting with our executive management, representatives from Morrison & Foerster and UBS to discuss the status of negotiations with the Equity Sponsors. A representative from Morrison & Foerster began the meeting by outlining the board s fiduciary duties. Pursuant to our board s request, representatives from UBS discussed our financial position and the Equity Sponsors proposal relative to comparable companies and transactions. Mr. Lawrence provided our board with a summary of the initial and current positions of the Equity Sponsors on significant issues relating to the structure of the draft merger agreement. Representatives from Morrison & Foerster noted that significant progress had been made with respect to the terms and conditions of the draft merger agreement, including the removal or modification of several of the proposed conditions to closing, including the financing contingency, and that each Equity Sponsor had agreed to provide a limited guarantee in our favor.

Immediately following this meeting, our board held a second telephonic meeting with representatives from Morrison & Foerster, which did not include representatives from UBS, to discuss the revised proposal. Our board invited Messrs. Lawrence and Clayton and Ms. Polak to participate in this meeting. Messrs. Gartzke and Sales also were invited to participate in the discussion portion of the meeting, but recused themselves prior to the board s deliberation. Messrs. Sales and Clayton provided an update of Mr. Sales presentation to our board on July 26, 2006, that discussed the risks and challenges associated with our existing business plans and prospects. After Messrs. Gartzke and Sales recused themselves, our board discussed that, due to the time value of money, a potentially higher acquisition price in the future based on a successful execution of our existing business plans would not necessarily yield a higher price to our stockholders than the price proposed by the Equity Sponsors. Our board also discussed the overall bidding process and the directors concluded that UBS, through the bidding process and its solicitation of the additional third party outside of the bidding process, conducted a thorough and complete process. Based upon the foregoing discussion, and as described more fully below in *Reasons for the Merger*, beginning on page 36, our board decided to continue negotiations with the Equity Sponsors, including seeking an increase in the offer price.

On December 1, 2006, following the board meetings and at the instruction of our board, representatives from UBS contacted representatives from Kelso to discuss certain outstanding issues relating to the draft merger agreement and whether the Equity Sponsors would be amenable to increasing the offer price to $28.00 per share of common stock. Representatives from Kelso responded that the Equity Sponsors would not agree to a valuation of $28.00 per share, but agreed to communicate to the other Equity Sponsors that we were seeking an increase in valuation above $27.75 per share.

On December 2, 2006, representatives from UBS called Michael Goldberg from Kelso to further discuss an increase in the Equity Sponsors offer price. Mr. Goldberg, on behalf of the Equity Sponsors, agreed to increase their price from $27.75 to $27.85 per share of common stock.

On December 5, 2006, SASM&F, on behalf of the Equity Sponsors, distributed a mark-up of the limited guarantee.

On December 5, 2006, representatives from the Equity Sponsors visited our Framingham, Massachusetts and Montreal, Canada facilities accompanied by representatives from UBS and members of our executive management.

On December 7, 2006, our representatives and representatives from Morrison & Foerster and SASM&F discussed the Equity Sponsors mark-up of the merger agreement and the significant issues that remained unresolved, including the circumstances under which we would be entitled to a termination fee and reimbursement of transaction expenses, whether the obligations of the Equity Sponsors under the limited guarantee would be joint and several, the terms of the marketing period, and the carve-out from our representations and warranties for materials disclosed in our SEC reports.

On December 7, 2006, representatives of the Equity Sponsors and our management team met in Indianapolis, Indiana to discuss various diligence matters, segments of our business, our financial performance and other business matters relating to our operations.

On December 8, 2006, our representatives and representatives from Morrison & Foerster; UBS; Kelso; SASM&F; IAAI; Deloitte & Touche USA LLP; Fried, Frank, Harris, Shriver & Jacobson, LLP; and Latham & Watkins LLP discussed the mechanics of the proposed combination of our company and IAAI following the completion of the merger and the status of IAAI s delayed filing of its Quarterly Report on Form 10-Q. Our representatives and representatives from Morrison & Foerster, Kelso and SASM&F reconvened on a telephone call later that day to negotiate provisions of the draft merger agreement impacted by this discussion.

Later in the day on December 8, 2006, our board held a telephonic meeting during which Morrison & Foerster updated the directors on the status of its negotiations with SASM&F. Messrs. Gartzke and Sales recused themselves from the substantive discussions about the status of the negotiations with SASM&F. Our management provided our board with a summary overview of management s updated financial projections, which were updated from those previously provided to the potential bidders in the Confidential Information Memorandum prepared in August 2006 and distributed to potential bidders in early September 2006 (see *Projected Financial Information,* beginning on page 48). The updates to the earlier financial projections incorporated management s assessment of the risks associated with executing various strategic initiatives assumed in the financial projections, management s updated estimates resulting from the budgeting process then being finalized by management, and the discussions that had occurred between management and various potential bidders. The updated financial projections were lower than the projections previously included in the Confidential Information Memorandum. Following this discussion our board concurred with management that the revised projections reflected the then best available estimates and judgments of management and our board as to our future financial performance and approved providing the revised projections to Credit Suisse as the financial projections to be used by it for purposes of its financial analyses (see *Opinion of Credit Suisse Securities (USA) LLC*, beginning on page 40). On December 19, 2006 a copy of the updated financial projections was provided to the Equity Sponsors.

Over the next few weeks representatives from Morrison & Foerster and SASM&F exchanged several drafts of the merger agreement and form of the limited guarantee and held numerous telephonic meetings, which included certain of our employees and representatives from Kelso and the other Equity Sponsors, to negotiate the merger agreement and form of the limited guarantee. During this time, the Equity Sponsors conducted additional due diligence.

On December 15, 2006, Michael Goldberg of Kelso contacted Mr. Gartzke and stated that, based upon additional diligence, including review of a preliminary set of financial information being used in the preparation of our 2007 budget, the Equity Sponsors were reducing their offer price from $27.85 to $27.00 per share of common stock.

Mr. Gartzke immediately conveyed this information to Messrs. Lawrence and Clayton as the representatives of the company to whom communications regarding the sale process were to be directed. Messrs. Lawrence and Clayton then conveyed this information to Ms. Weinstein. In discussions with Ms. Weinstein, and later the entire board, our management dismissed the basis asserted by the Equity Sponsors for reducing their offer price because the diligence matters cited were previously disclosed to the Equity Sponsors and because the 2007 financial information presented to the Equity Sponsors represented only the results of the initial stages of our budgeting process and did not reflect final estimates for the 2007 fiscal year.

On December 16, 2006, our board held a telephonic meeting to discuss the reduced offer price proposed by the Equity Sponsors with representatives from Morrison & Foerster and UBS.

Immediately following this meeting, our board held a second telephonic meeting with members of executive management and representatives from Morrison & Foerster, but did not include representatives from UBS. Messrs. Gartzke and Sales recused themselves from the substantive discussions about the status of the negotiations with the Equity Sponsors. After discussing and considering advice from representatives from both Morrison & Foerster and UBS, our board decided to reject the Equity Sponsors reduced offer price. Our board determined that it would not approve a transaction with an acquisition price below $27.85 per share of common stock. In light of the recusal of Messrs. Gartzke and Sales from board deliberations and negotiations regarding the sale process, our board instructed Ms. Weinstein and Donald C. Wegmiller, one of our other board members, to firmly convey our board s position to Mr. Goldberg. Immediately following the meeting, Ms. Weinstein and Mr. Wegmiller communicated our board s position to Mr. Goldberg, to which Mr. Goldberg indicated that the Equity Sponsors offer was firm at $27.00 per share of common stock. As a result, we instructed Morrison & Foerster, UBS and Credit Suisse to cease performing any further work in connection with the potential acquisition. We terminated each Equity Sponsor s access to the on-line data room and Morrison & Foerster provided each of Kelso, GSCP and ValueAct with a written request to return or destroy all confidential information provided to or created by each of them in connection with the potential business combination.

On December 19, 2006, Mr. Goldberg contacted Ms. Weinstein and informed her that the Equity Sponsors would agree to a transaction with the prior acquisition price of $27.85 per share of common stock. As a result, we rescinded each of our letters dated December 16, 2006 to Kelso, GSCP and ValueAct pertaining to the return or destruction of confidential information, and representatives from Morrison & Foerster resumed finalizing the merger agreement and form of the limited guarantee with representatives from SASM&F.

On December 21, 2006, our board held a telephonic meeting to discuss, among other things, the Equity Sponsors proposal to acquire us at an offer price of $27.85 per share of common stock. During the course of the meeting, Messrs. Gartzke and Sales participated in the discussion portions of the meeting, but recused themselves prior to the board s deliberation. The meeting began with representatives from UBS, our executive management and Ms. Weinstein updating our board on developments since the last meeting. At that point the representatives from UBS were excused from the meeting. Following this discussion, representatives from Credit Suisse reviewed with our board Credit Suisse s financial analysis of the Equity Sponsors proposal, and the board asked questions and engaged in a discussion of the matters reviewed by Credit Suisse. Credit Suisse then rendered to our board its oral opinion, which opinion was confirmed by delivery of a written opinion dated December 21, 2006, that, as of such date and based upon and subject to certain assumptions, factors and qualifications set forth in the written opinion, the consideration of $27.85 to be received by each holder of our common stock (other than Buyer and its affiliates) in the proposed merger was fair to such stockholders, from a financial point of view. The full text of Credit Suisse s opinion is attached as Annex C (see *Opinion of Credit Suisse Securities (USA) LLC*, beginning on page 40). Our board next received a presentation from a representative of Morrison & Foerster on our board s fiduciary duties in considering the proposed business combination. Our board next discussed certain compensation matters, including agreements with certain of our executive officers that provide for change in control payments and benefits under certain circumstances (see *Interests of Our Directors and Executive Officers in the Merger*, beginning on page 53). Thereafter, our board unanimously (excluding the recused directors Messrs. Gartzke and Sales) approved the change in control agreements and certain other compensation matters. Our board also discussed and subsequently approved unanimously (excluding the recused directors Messrs. Gartzke and Sales) a transaction bonus agreement with Mr. Clayton, pursuant to which we would pay to Mr. Clayton a lump sum transaction bonus upon the closing of the merger and the confirmation by us of certain retiree health benefits to Brenda J. Flayton in certain circumstances (see *Interests of Our Directors and Executive Officers in the Merger*, beginning on page 53).

The board meeting continued through the night until the morning of December 22, 2006, at which time a representative from Morrison & Foerster provided our board with summaries of the definitive merger agreement and form of the limited guarantee and reviewed the material terms of each agreement, including, with respect to the merger agreement, the structure of the transaction, equity and debt financing commitments, closing conditions, termination provisions, covenants of the parties, conduct of our business pending the closing of the transaction and certain representations and warranties made by us. Following further deliberation, and based upon the discussions our board had with executive management, representatives from Morrison & Foerster, UBS and Credit Suisse, and the factors set forth below under *Reasons for the Merger*, our board unanimously (excluding the recused directors Messrs. Gartzke and Sales) passed the resolutions approving the definitive merger agreement and form of the limited guarantee, as well as resolutions terminating the ADESA, Inc. 2004 Equity and Incentive Plan (the 2004 Equity Plan), the ADESA, Inc. Employee Stock Purchase Plan (the ESPP), and amending and terminating the ADESA, Inc. Director Compensation Deferral Plan (the Director Deferral Plan) and the ADESA, Inc. 2005 Supplemental Executive Retirement Plan (the SERP), in each case in connection with and as contemplated by the definitive merger agreement.

In the early morning of December 22, 2006, we executed the definitive merger agreement with Buyer Parties and a limited guarantee with each Equity Sponsor. We subsequently issued a joint press release with IAAI announcing the transaction. We also filed a Current Report on Form 8-K with the SEC describing the transaction.

Reasons for the Merger

Our board of directors, at a meeting described above on December 22, 2006 and with the recusal of Messrs. Gartzke and Sales (see *Background of the Merger,* beginning on page 26), (i) determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of the company and our stockholders, (ii) approved the execution, delivery and performance of the merger agreement and the consummation of the transactions contemplated thereby, including the merger, (iii) resolved to recommend that our stockholders approve the adoption of the merger agreement and directed that such matter be submitted for consideration of our stockholders at the special meeting and (iv) took all necessary steps so that the provisions of Section 203 of the DGCL do not apply to the execution and delivery of the merger agreement and the transactions contemplated thereby.

In reaching its decision to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement and to recommend approval of the foregoing to our stockholders, our board consulted its legal and financial advisors and other experts and considered a number of factors, including the following material factors, each of which the members of our board believed supported its decision:

- the board s familiarity with our business, operations, properties and assets, financial condition, business strategy and prospects, including the risks involved in achieving those prospects, the nature of the industries in which we compete, industry trends, and economic and market conditions, both on a historical and prospective basis;

- the fact that we, with the assistance of representatives from UBS, conducted a wide-ranging process to solicit indications of interest for a business combination involving our company and that this bid process afforded us a market check that revealed, among other things, that no other party indicated a willingness to bid at a per share price higher than the final per share price proposed by the Equity Sponsors (see *Background of the Merger*, beginning on page 26);

- the potential stockholder value that could be expected to be generated from remaining as a public company and pursuing other strategic alternatives, as well as the risks and uncertainties associated therewith, including the risks associated with our ability to meet our projections for future results of operations, compared to the certainty to our stockholders of realizing in cash a fair value for their investment under the merger;

- the fact that our long-term business plan includes projections for a number of variables, including trends in new and retail used vehicle sales and incentives, including wholesale used vehicle pricing; economic conditions, including fuel prices, weather, Canadian exchange rate and interest rate fluctuations; competition; trends in the vehicle redistribution industry; capital investment in information technology; operating initiatives designed to enhance overall efficiencies through centralization and standardization; acquisitions and investments in greenfield sites; and site relocations and associated expenses; each of which is difficult to project and is subject to risks and uncertainty associated with execution;

- due to the time value of money, a potentially higher acquisition price in the future (which assumes, among other things, the successful implementation of our planned initiatives), when discounted to present value, may not yield a higher price to our stockholders than the price proposed by the Equity Sponsors;

- the current and historical market prices of our common stock, and the fact that the $27.85 per share to be paid for each share of common stock in the merger is a price higher than any market price achieved by our common stock prior to the public announcement of the merger, and represents a premium of approximately 9.6% to the closing price of our common stock on December 21, 2006 and a premium of approximately 37.1% to the closing price of our common stock on July 26, 2006, the date our board authorized the initiation of a sale process;

- the fact that the price proposed by the Equity Sponsors reflected extensive negotiations among the parties, including the fact that the price per share of common stock agreed to in the merger agreement is $0.85 per share higher than the original offer price contained in the Equity Sponsors final bid letter;

- the fact that we are the only publicly-traded integrated provider of vehicle auction, salvage auction and dealer financing services, and, because no other company has a directly comparable business model, the investment community has had difficulty accurately evaluating our financial condition, business strategy and prospects;

- the fact that, given the very limited number of large companies engaged in the same business as us and the regulatory risks associated with a business combination between our company and any of those companies, our board thought it was unlikely that there would be a strategic buyer for our company;

- the financial analyses of Credit Suisse and its written opinion that, as of December 21, 2006, and based upon and subject to certain assumptions, factors and qualifications set forth therein, the consideration to be paid to the holders of our common stock (other than Buyer and its affiliates) in the merger is fair to such stockholders, from a financial point of view (see *Opinion of Credit Suisse Securities (USA) LLC,* beginning on page 40);

- the fact that the merger consideration is all cash, which provides certainty of value to our stockholders;

- the availability of appraisal rights to our stockholders who comply with all of the required procedures under the DGCL, which allows such holders to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery (see *Appraisal Rights*, beginning on page 64);

- the provisions of the merger agreement that allow our board, under certain circumstances, and subject to certain conditions, to change its recommendation that our stockholders vote in favor of the adoption and approval of the merger agreement (subject to our obligation to pay Buyer a $40 million termination fee);

- the provisions of the merger agreement which provide that, under certain circumstances and subject to certain conditions, we may furnish information to and conduct negotiations with a third party, terminate the merger agreement, and enter into an agreement relating to a superior proposal (subject to our obligation to pay Buyer a $40 million termination fee);

- the fact that the merger is not conditioned on the ability of Buyer Parties to obtain financing, as well as the provision by the Equity Sponsors to Buyer of certain executed equity commitment letters; the provision by Holdings of certain debt commitment letters and the limited number and nature of the conditions to funding set forth in the debt financing commitment letter; and the obligation of Buyer to pay us a $40 million termination fee if it fails to consummate the merger because of a failure to obtain financing, subject to certain conditions and qualifications;

- the belief of our board that the $40 million termination fee that would be payable by us under certain circumstances in connection with the termination of the merger agreement is reasonable in light of the benefits of the merger and commercial practice;

- the fact that, unlike certain business combinations involving financial buyers, no member of our management has entered into any arrangements with any of Buyer Parties regarding voting arrangements or potential employment opportunities, which may make it more likely that a competitive bid for our company may arise;

- the assessment of our board that the terms of the merger agreement reflected extensive negotiations among the parties and were fair to our stockholders;

- the receipt of an executed limited guarantee from each Equity Sponsor and IAAI providing for the pro rata guarantee of Buyer Parties observance of their respective obligations to pay the termination fee and transaction expenses if such obligations are required to be satisfied by Buyer under the merger agreement up to a maximum cap of $40 million;

- the experience of the Equity Sponsors in completing significant acquisitions, including the experience of Kelso and Parthenon of acquiring IAAI; and

- the limited number of potential purchasers with the financial ability to acquire us.

Our board also considered potential drawbacks or risks relating to the approval of the merger, the merger agreement and the other transactions contemplated by the merger agreement, including the following material drawbacks or risks:

- the fact that the all-cash price would not allow our stockholders to participate in any future growth of the combined entity, including any potential synergies associated with the combination with IAAI;

- the fact that gains from an all-cash transaction would generally be taxable to our stockholders for U.S. federal income tax purposes (see *Material U.S. Federal Income Tax Consequences,* beginning on page 62);

- the possibility that an antitrust authority may seek to impose conditions on or enjoin or otherwise prevent or delay the merger;

- our inability to take action to cause specific performance or require Buyer Parties to consummate the merger and our sole and exclusive remedy against Buyer Parties with respect to any breach or termination of the merger agreement is our right to recover a termination fee of $40 million, or have our transaction expenses, up to $8 million, reimbursed, in each case, if the merger agreement is terminated under specified circumstances;

- the risks and costs to us if the merger is not consummated, including the diversion of management and employee attention, employee attrition and the effect on business and customer relationships;

- the potential interests of our officers and directors in the merger described under *Interests of Our Directors and Executive Officers in the Merger*, beginning on page 53;

- the restrictions on the conduct of our business prior to the consummation of the merger, including the requirement that we must conduct our business in the ordinary course, subject to specific limitations, which may delay or prevent us from undertaking business opportunities that may arise pending consummation of the merger;

- the fact that we are entering into a merger agreement with newly formed entities with essentially no assets and, accordingly, that the $40 million termination fee payable by Buyer to us under certain circumstances serves as a contractual limitation on the maximum amount that we would be able to recover in damages from Buyer Parties in connection with certain breaches or termination of the merger agreement (see *The Merger Agreement Termination Fee Payable to Us,* beginning on page 86);

- the risk that, while we expect that the merger will be consummated, we have no assurance that all conditions to the parties obligations to consummate the merger will be satisfied, and as a result, it is possible that the merger may not be consummated even if it is approved by our stockholders;

- the inclusion in the merger agreement of a closing condition that holders of no more than 20% of the outstanding shares of our common stock exercise (and do not withdraw or lose) appraisal rights in connection with Section 262 of the DGCL; and

- the possibility that the $40 million termination fee payable by us under specified circumstances may discourage another party from making a competing and more favorable proposal to acquire us.

The foregoing discussion of the factors, drawbacks or risks considered by our board, while not exhaustive, includes the material information considered by our board in its consideration of the merger. After considering these factors, our board concluded that the positive factors relating to the merger outweighed the potential negative factors. In view of the variety of factors and the amount of information

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considered, our board did not find it practicable to quantify, and did not make specific assessments of, or otherwise assign relative weights to, the specific factors considered in reaching its determination. The determination was made after consideration of all of the factors as a whole. In addition, individual members of our board who approved the transaction may have given different weights to different factors.

Recommendation of Our Board of Directors

Our board of directors has unanimously (excluding the recused directors Messrs. Gartzke and Sales) approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared that the merger, the merger agreement and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the company and our stockholders. Accordingly, our board of directors unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the adoption and approval of the merger agreement. Our board of directors also unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

Opinion of Credit Suisse Securities (USA) LLC

We retained Credit Suisse solely to provide an opinion in connection with the merger. In connection with Credit Suisse s engagement, we requested that Credit Suisse evaluate the fairness, from a financial point of view, to the holders of our common stock, other than Buyer and its affiliates, of the merger consideration to be received by such stockholders in the merger. On December 21, 2006, at a meeting of our board of directors held to evaluate the merger, Credit Suisse rendered to our board of directors its oral opinion, which opinion was confirmed by delivery of a written opinion dated December 21, 2006, that, as of that date and based on and subject to the considerations described in its opinion, the merger consideration to be received by the holders of our common stock, other than Buyer and its affiliates, was fair to such stockholders, from a financial point of view.

The full text of Credit Suisse s written opinion, dated December 21, 2006, to our board of directors, which sets forth, among other things, the procedures followed, assumptions made, matters considered and limitations on the scope of review undertaken by Credit Suisse in rendering its opinion, is attached as Annex C and is incorporated into this proxy statement by reference in its entirety. Holders of our common stock are encouraged to read this opinion carefully and in its entirety. Credit Suisse s opinion was provided to our board of directors in connection with its evaluation of the merger consideration, relates only to the fairness, from a financial point of view, to the holders of our common stock, other than Buyer and its affiliates, of the merger consideration and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger. The summary of Credit Suisse s opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Credit Suisse reviewed a draft of the merger agreement received by it on December 21, 2006, as well as certain publicly available business and financial information relating to ADESA. Credit Suisse also reviewed certain other information relating to ADESA, including financial forecasts, provided to or discussed with Credit Suisse by ADESA, and met with our management to discuss our business and prospects. Credit Suisse also considered certain financial and stock market data of ADESA, and compared that data with similar data for other publicly held companies in businesses Credit Suisse deemed similar to that of ADESA, and considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. Credit Suisse also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with its review, Credit Suisse did not assume any responsibility for independent verification of any of the foregoing information and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for ADESA which Credit Suisse used for purposes of its analysis, our management advised Credit Suisse, and Credit Suisse assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of our management and our board of directors as to our future financial performance. Credit Suisse also assumed, with our consent, that in the course of obtaining any necessary regulatory or third party consents, approvals or agreements in connection with the merger, no modification, delay, limitation, restriction or condition would be imposed that would have an adverse effect on ADESA or the merger, that the merger agreement when signed would conform to the draft merger agreement reviewed by Credit Suisse in all respects material to its analyses, and that the merger would be consummated in accordance with the terms of the merger agreement reviewed by Credit Suisse without waiver, modification or amendment of any material term, condition or agreement therein. In addition, Credit Suisse was not requested to make, and Credit Suisse did not make, an independent evaluation or appraisal of our assets or liabilities (contingent or otherwise) and Credit Suisse was not furnished with any such evaluations or appraisals. Credit Suisse s opinion addressed only the fairness, from a financial point of view, to the holders of our common stock, other than Buyer and its affiliates, of the merger consideration and did not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise. Credit Suisse s opinion was necessarily based upon information made available to it as of the date of its opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of its opinion. Credit Suisse s opinion did not address the relative merits of the merger as compared to other business strategies or transactions that might be available to ADESA, nor did it address the underlying business decision of ADESA to proceed with the merger. Credit Suisse was not involved in any of the determinations of our board of directors or our management to pursue strategic alternatives for ADESA, including the merger, in the negotiation of any of the terms of the merger, or in the solicitation of third party indications of interest in acquiring all or any part of ADESA.

In preparing its opinion to our board of directors, Credit Suisse performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse s analyses described below is not a complete description of the analyses underlying Credit Suisse s opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse made qualitative judgments with respect to the analyses and factors that it considered. Credit Suisse arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Credit Suisse believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond ADESA s control. No asset, company, transaction or business used in Credit Suisse s analyses as a comparison is identical to ADESA s assets, ADESA or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Credit Suisse s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Credit Suisse s analyses are inherently subject to substantial uncertainty.

Credit Suisse s opinion and financial analyses were only one of many factors considered by our board of directors in its evaluation of the merger and should not be viewed as determinative of the views of our board of directors or management with respect to the merger or the merger consideration.

The following is a summary of the material financial analyses reviewed with our board of directors in connection with Credit Suisse s opinion dated December 21, 2006. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse s financial analyses.**

Sum of the Parts Analyses of ADESA

Credit Suisse performed three separate sum of the parts analyses of ADESA using the following financial analyses: (i) selected companies analysis, (ii) selected transactions analysis and (iii) discounted cash flow analysis. Using the foregoing financial analyses, Credit Suisse derived three reference ranges for the implied enterprise value of our Auction Services Group (ASG) and our Dealer Services Group (DSG). Credit Suisse then derived three reference ranges for the total implied enterprise value of ADESA by adding (i) the applicable reference range of the implied enterprise value of our Auction Services Group, (ii) the applicable reference range of the implied enterprise value of our Dealer Services Group, and (iii) a range of implied present values of our corporate expenses. The results of these analyses are set forth in the following table:

	Ranges of Implied Enterprise Values of ADESA (in millions)								
	Selected Companies Analysis			Selected Transactions Analysis			Discounted Cash Flow Analysis		
ASG Implied Enterprise Value	$	1,750	$2,200	$	1,825	$2,350	$	1,844	$2,319
DSG Implied Enterprise Value	$	600	$750	$	700	$1,000	$	698	$878
Corporate Expense Implied Enterprise Value	$	(110)	$(140)	$	(110)	$(140)	$	(110)	$(140)
Total Implied Enterprise Value of ADESA	$	2,240	$2,810	$	2,415	$3,210	$	2,432	$3,057

Using each of the above reference ranges of our total implied enterprise value, Credit Suisse derived reference ranges for the total implied equity value of ADESA by subtracting our estimated net debt as of December 31, 2006 from, and adding the value of certain estimated corporate adjustments as of December 31, 2006 to, the reference ranges of our total implied enterprise value. The results of these analyses are set forth in the following table:

	Ranges of Implied Equity Values of ADESA (in millions)								
	Selected Companies Analysis			Selected Transactions Analysis			Discounted Cash Flow Analysis		
Total Implied Enterprise Value of ADESA	$	2,240	$2,810	$	2,415	$3,210	$	2,432	$3,057
Less Estimated Net Debt		$120			$120			$120	
Plus Estimated Corporate Adjustments		$38			$38			$38	
Total Implied Equity Value of ADESA	$	2,158	$2,728	$	2,333	$3,128	$	2,350	$2,975

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A description of the material analyses performed by Credit Suisse in determining the values set forth in the foregoing tables, including descriptions of the selected companies, selected transactions and discounted cash flow analyses performed by Credit Suisse in its analyses of our Auction Services Group and our Dealer Services Group, is set forth below under *Financial Analyses Used in the Sum of the Parts Analyses*.

Using each of the above reference ranges of our total implied equity value, Credit Suisse derived ranges of implied prices per share of our common stock using the following estimates of the number of fully diluted shares of our common stock that would be outstanding as of December 31, 2006, calculated, based on the treasury method, for the applicable low and high implied equity values of ADESA: (i) 90.6 million and 91.4 million, for the selected companies financial analysis, (ii) 90.8 million and 91.7 million, for the selected transactions analysis, and (iii) 90.9 million and 91.6 million, for the discounted cash flow analysis. Based on the foregoing, Credit Suisse derived the following ranges of implied prices per share of our common stock, which Credit Suisse then compared against the per share merger consideration:

Sum of the Parts Analysis	Implied Price Per ADESA Share	Merger Consideration Per ADESA Share
Selected Companies Analysis	$ 23.83 $29.8 6	$ 27.85
Selected Transactions Analysis	$ 25.68 $34.1 0	$ 27.85
Discounted Cash Flow Analysis	$ 25.86 $32.4 8	$ 27.85

Financial Analyses Used in the Sum of the Parts Analyses

Auction Services Group Financial Analyses

Credit Suisse used a selected companies analysis, a selected transactions analysis and a discounted cash flow analysis to derive the ranges of implied enterprise values of our Auction Services Group used by Credit Suisse in the three sum of the parts analyses described above.

Auction Services Group Selected Companies Analysis

Credit Suisse compared certain financial information of our Auction Services Group with publicly available financial information of other companies in the salvage and related services, aftermarket automobile parts and industrial distribution sectors, including:

Salvage and Related Services	Aftermarket Automobile Parts	Industrial Distribution
LKQ Corporation	O Reilly Automotive, Inc	MSC Industrial Direct Co., Inc.
Ritchie Bros. Auctioneers Incorporated	The Pep Boys Manny, Moe & Jack	Genuine Parts Company
Copart, Inc.	AutoZone, Inc.	Barnes Group Inc.
Keystone Automotive Industries, Inc.	Advance Auto Parts, Inc.	Uni-Select USA, Inc.

Such information included, among other things, observed trading multiples of (i) enterprise value (calculated as equity value plus debt, less cash and cash equivalents) as a multiple of estimated earnings before interest, taxes, depreciation and amortization (EBITDA) for calendar years 2006 and 2007 and (ii) estimated earnings before interest and taxes (EBIT) for calendar years 2006 and 2007. Financial data for the selected publicly held companies was based on publicly available information and research analyst estimates. All multiples were based on closing stock prices on December 20, 2006. From the observed trading multiples for the selected companies, Credit Suisse derived, with respect to our Auction Services Group, (i) a range of multiples of enterprise value to estimated EBITDA for calendar years 2006 and 2007 and (ii) a range of multiples of enterprise value to estimated EBIT for calendar years 2006 and 2007. Credit Suisse then used these derived ranges of multiples to calculate ranges of implied enterprise values of our Auction Services Group using financial data prepared by our management (we refer to financial data, including estimates of our future financial performance, prepared by our management as the ADESA management case). Based on the foregoing, Credit Suisse selected the following reference range of implied enterprise values for our Auction Services Group for use in its selected companies sum of the parts analysis:

Auction Services Group Implied Enterprise Value	$1,750 million	$2,200 million

No company used as a comparison in the selected companies analysis is identical to our Auction Services Group.

Auction Services Group Selected Transactions Analysis

Using publicly available information, Credit Suisse reviewed several financial metrics from the following 10 selected transactions in sectors deemed by Credit Suisse to be similar to the auction and related services sector:

Acquiror		Target
CSK Auto Corporation		PACCAR Inc. s aftermarket parts business
Kelso & Company		Insurance Auto Auctions, Inc.
O Reilly Automotive, Inc.		Hi-Lo Automotive, Inc.
Sumitomo Corporation of America		TBC Corporation
Minnesota Power & Light Company		ADESA, Inc.
Investcorp		American Tire Distributors, Inc.
GTCR Golder Rauner LLC		ADP Claims Services Group
Bain Capital LLC		Keystone Automotive, Inc.
Advance Auto Parts, Inc.		Discount Auto Parts, Inc.
ALLETE, Inc.		ADESA, Inc. (Spin-Off)

For those selected transactions for which sufficient financial information was publicly available, Credit Suisse calculated the enterprise value of the target company as a multiple of its last twelve months (LTM) EBITDA. Multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. From the observed multiples for the selected transactions, Credit Suisse derived, with respect to our Auction Services Group, (i) a range of multiples of enterprise value to LTM EBITDA for the period ending September 30, 2006 and (ii) a range of multiples of enterprise value to estimated calendar year 2006 EBITDA. Credit Suisse then used these derived ranges of multiples to calculate ranges of implied enterprise values of our Auction Services Group using financial data from the ADESA management case. Based on the foregoing, Credit Suisse selected the following reference range of implied enterprise values for our Auction Services Group for use in its selected transactions sum of the parts analysis:

Auction Services Group Implied Enterprise Value	$1,825 million	$2,350 million

No company or transaction utilized as a comparison in this analysis is identical to our Auction Services Group or the contemplated merger.

Auction Services Group Discounted Cash Flow Analysis

Credit Suisse performed a discounted cash flow analysis of our Auction Services Group to calculate the estimated present value of the unlevered, after-tax free cash flows that could be generated by our Auction Services Group over calendar years 2007 through 2011 based on the ADESA management case. Credit Suisse then calculated a range of estimated terminal values by multiplying the calendar year 2011 estimated EBITDA by selected terminal multiples ranging from 8.0x to 10.0x. The estimated after-tax cash flows and the terminal values were then discounted to present values using discount rates ranging from 12.0% to 13.0% to calculate a range of implied enterprise values for our Auction Services Group. This analysis indicated the following range of implied enterprise values of our Auction Services Group:

Auction Services Group Implied Enterprise Value	$ 1,844 million	$ 2,319 million

Dealer Services Group Financial Analyses

Credit Suisse used a selected companies analysis, a selected transactions analysis and a discounted cash flow analysis to derive the ranges of implied enterprise values of our Dealer Services Group used by Credit Suisse in the three sum of the parts analyses described above.

Dealer Services Group Selected Companies Analysis

Credit Suisse compared certain financial information of our Dealer Services Group with publicly available financial information of other companies in the automobile finance, commercial finance and other finance sectors, including:

Automobile Finance	**Commercial Finance**	**Other Finance**
Credit Acceptance Corporation	Financial Federal Corporation	Advanta Corp.
AmeriCredit Corp.	CapitalSource Inc.	CompuCredit Corporation
United PanAm Financial Corp.	Marlin Business Services Corp.	
	CIT Group Inc.	

Such information included, among other things, observed trading multiples of (i) price per share to LTM earnings per share (ii) price per share to estimated earnings per share for calendar years 2006 and 2007 and (iii) equity value to tangible book value for the most recent actual date available. Financial data for the selected publicly held companies was based on publicly available information and research analyst estimates. All multiples were based on closing stock prices on December 20, 2006. From the observed trading multiples for the selected companies, Credit Suisse derived, with respect to our Dealer Services Group, (i) a range of multiples of equity value to LTM net income for the period ending September 30, 2006, (ii) a range of multiples of equity value to estimated net income for calendar years 2006 and 2007 and (iii) a range of equity value to tangible book equity as of September 30, 2006. Credit Suisse then used these derived ranges of multiples to calculate ranges of the implied equity value of our Dealer Services Group using financial data from the ADESA management case. Since no estimated net debt as of December 31, 2006 was allocated to the Dealer Services Group in the ADESA management case, the enterprise value of the Dealer Services Group is equal to the equity value of the Dealer Services Group. Based on the foregoing, Credit Suisse selected the following reference range of implied enterprise values of our Dealer Services Group for use in its selected companies sum of the parts analysis:

Dealer Services Group Implied Enterprise Value	$600 million	$750 million

No company used as a comparison in the selected companies analysis is identical to our Dealer Services Group.

Dealer Services Group Selected Transactions Analysis

Using publicly available information, Credit Suisse reviewed several financial metrics from the following 13 selected transactions in the automotive finance services industry:

Acquiror	Target
General Electric Company	Commercial Lending Business of Transamerica
Heller Financial, Inc.	Healthcare Financial Partners, Inc.
GE Capital Solutions	Trustreet Properties, Inc.
General Electric Company	Heller Financial, Inc.
Textron Financial Corporation	Litchfield Financial Corporation
Tyco International Ltd.	CIT Group Inc.
Wachovia Corporation	Westcorp
Bay View Capital Corporation	Franchise Mortgage Acceptance Company
CIT Group Inc.	NewCourt Credit Group, Inc.
GE Capital Commercial Equipment Leasing	SAFECO Corporation
Penske Truck Leasing	Rollins Truck Leasing Corp.
GE Capital Corporation	Franchise Finance Corporation of America
iStar Financial Inc.	Falcon Financial Investment Trust

For those selected transactions for which sufficient financial information was publicly available, Credit Suisse calculated (i) the equity value of the target company as a multiple of its LTM net income, (ii) the equity value of the target company as a multiple of its estimated next twelve months (NTM) net income and (iii) the equity value of the target company as a multiple of its tangible book equity. Multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. From the observed multiples for the selected transactions, Credit Suisse derived, with respect to our Dealer Services Group, (i) a range of multiples of equity value to LTM net income, (ii) a range of multiples of equity value to estimated NTM net income, (iii) a range of multiples of equity value to estimated net income for calendar years 2006 and 2007 and (iv) a range of multiples of equity value to tangible book equity as of September 30, 2006. Credit Suisse then used these derived ranges of multiples to calculate ranges of implied equity values of our Dealer Services Group using financial data from the ADESA management case. Since no estimated net debt as of December 31, 2006 was allocated to the Dealer Services Group in the ADESA management case, the enterprise value of the Dealer Services Group is equal to the equity value of the Dealer Services Group. Based on the foregoing, Credit Suisse selected the following reference range of implied enterprise values of our Dealer Services Group for use in its selected transactions sum of the parts analysis:

Dealer Services Group Implied Enterprise Value	$700 million	$1,000 million

No company or transaction utilized as a comparison in this analysis is identical to our Dealer Services Group or the contemplated merger.

Dealer Services Group Discounted Cash Flow Analysis

Credit Suisse performed a discounted cash flow analysis of our Dealer Services Group to calculate the estimated present value of the after-tax free cash flows that could be generated by our Dealer Services Group over calendar years 2007 through 2011 based on the ADESA management case and a target tangible equity to tangible managed assets of 28.2%. Credit Suisse then calculated a range of estimated terminal values by multiplying the calendar year 2011 estimated net income of our Dealer Services Group by selected terminal multiples of 11.0x to 13.5x. The estimated after-tax cash flows and the terminal values were then discounted to present values using discount rates ranging from 11.5% to 13.5% to calculate a range of implied equity values for our Dealer Services Group. Since no estimated net debt as of December 31, 2006 was allocated to the Dealer Services Group in the ADESA management case, the enterprise value of the Dealer Services Group is equal to the equity value of the Dealer Services Group. This analysis indicated the following range of implied enterprise values of our Dealer Services Group:

Dealer Services Group Implied Enterprise Value	$698 million $878 million

Corporate Expense

Credit Suisse calculated the estimated present value of our after-tax corporate expenses over calendar years 2007 through 2011 based on the ADESA management case. Credit Suisse then calculated a range of estimated terminal values by multiplying the calendar year 2011 unlevered, after-tax free cash flow of our estimated corporate expenses by selected fractions, the numerators of which were equal to one plus the selected implied perpetuity growth rate and the denominators of which were equal to the selected discount rate less the selected implied perpetuity growth rate. The implied perpetuity growth rates and the discount rates used by Credit Suisse ranged from 2.0% to 4.0% and 12.0% to 13.0%, respectively. The estimated after-tax cash flows and the terminal values were then discounted to present values to calculate a range of implied enterprise values for our corporate expenses. This analysis indicated the following range of implied enterprise values of our corporate expenses:

Corporate Expenses Implied Enterprise Value	($110) million ($140) million

Net Debt

In performing its sum of the parts analyses, Credit Suisse used the estimated net debt of ADESA as of December 31, 2006, which consisted of approximately $353 million in debt less cash and cash equivalents (including cash deposits in transit) of approximately $233 million.

Corporate Adjustments

In performing its sum of the parts analyses, Credit Suisse relied upon adjustments to our financial results included in the ADESA management case. These adjustments, which were estimated as of December 31, 2006 by our management, were used by Credit Suisse to reflect material assets and liabilities not captured in the other valuation methodologies, including long-term liabilities resulting from litigation liabilities, long-term supplemental executive retirement plan liabilities and environmental remediation costs and long-term assets including minority equity investments, investment assets and long-term supplemental executive retirement plan assets. The adjustments totaled $38 million, which is the amount that Credit Suisse used in deriving the implied equity values of ADESA pursuant to its three different sum of the parts analyses.

Miscellaneous

We selected Credit Suisse based on Credit Suisse s qualifications, experience and reputation. Credit Suisse is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Credit Suisse and its affiliates have in the past provided, currently are providing, and in the future may provide, investment banking and other financial services to ADESA, its affiliates and, affiliates of Buyer, unrelated to the merger for which services Credit Suisse received, and would expect to receive, compensation. Credit Suisse and certain of its affiliates and certain of Credit Suisse s and its affiliates respective employees and certain private investment funds affiliated or associated with Credit Suisse have invested in affiliates of Buyer. Credit Suisse is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, Credit Suisse and its affiliates may acquire, hold or sell, for its and its affiliates own accounts and for the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of ADESA, its affiliates and affiliates of Buyer and any other entities involved in the merger and, accordingly, may at any time hold a long or short position in such securities, as well as provide investment banking and other financial services to such companies.

Under the terms of Credit Suisse s engagement, we have agreed to pay Credit Suisse a customary fee in connection with its services, a significant portion of which was payable upon the rendering by Credit Suisse of its opinion. In addition, we have agreed to reimburse Credit Suisse for its reasonable expenses, including fees and expenses of legal counsel and any other advisor retained by Credit Suisse, and to indemnify Credit Suisse and related parties against certain liabilities and other items, including liabilities under the federal securities laws, arising out of its engagement.

Projected Financial Information

We, as a matter of course, do not make public projections as to future performance or earnings beyond the current fiscal year due to the unpredictability of the underlying assumptions and estimates. However, our management did prepare an initial set of financial projections solely for the purpose of soliciting potential bids to acquire our company which were included in the Confidential Information Memorandum prepared in August 2006 and distributed to potential bidders, including the Equity Sponsors, in early September 2006. As previously discussed on page 34 under *Background of the Merger*, our management also prepared an updated final set of financial projections which were provided to our board on December 8, 2006 and shortly thereafter to Credit Suisse to be used by it for purposes of its financial analyses (see *Opinion of Credit Suisse Securities (USA) LLC* beginning on page 40). In addition, on December 19, 2006, a copy of the December final financial projections was provided to the Equity Sponsors. We have included below a summary of the December final financial projections to give our stockholders access to certain non-public information reviewed by our board and the Equity Sponsors for purposes of considering and evaluating the proposed merger. We also have included below a summary of the earlier, initial financial projections included in the Confidential Information Memorandum to give our stockholders access to certain non-public information reviewed by the Equity Sponsors and other potential bidders at an early point in the process leading up to our execution of the merger agreement with Buyer Parties. The inclusion of this information should not be regarded as an indication that our board, Credit Suisse or the Equity Sponsors considered, or now considers, this information to be a reliable prediction of future results.

The financial projections below reflect numerous assumptions with respect to industry performance, general business, economic, regulatory, market and financial conditions and other matters, all of which are difficult to predict and beyond our control. The financial projections below also reflect numerous estimates and assumptions related to our business that are inherently subject to factors such as significant economic, political and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control, including the factors described under *Cautionary Statements Regarding Forward-Looking Information* beginning on page 19, which factors may cause the financial projections described below or the underlying assumptions to be inaccurate. You also should review the risk factors set forth in our current filings with the SEC, including our most recent Quarterly Report on Form 10-Q and Annual Report on Form 10-K for a discussion of the various risks and assumptions. As a result, there can be no assurance that the projected results described in the below financial projections will be realized or that actual results will not be significantly higher or lower than projected. In addition, the financial projections below do not take into account any of the transactions contemplated by the merger agreement, including the merger and related financing, which may also cause actual results to differ materially.

The December final financial projections were prepared by our management for internal use and, subject to authorization by our board, to be used by Credit Suisse for purposes of its financial analyses (see *Opinion of Credit Suisse Securities (USA) LLC,* beginning on page 40). The earlier, initial financial projections were prepared for use in the Confidential Information Memorandum and related process and were not reviewed by our board prior to distribution of the Confidential Information Memorandum to the potential bidders. Neither set of financial projections were prepared with a view toward public disclosure or toward complying with U.S. generally accepted accounting principles, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Our independent registered public accounting firm has not examined or compiled any of the financial projections, expressed any conclusion or provided any form of assurance with respect to the financial projections and, accordingly, assumes no responsibility for them. The financial projections below do not take into account any circumstances or events occurring after the date they were prepared. Since the financial projections below cover multiple years, such information by its nature becomes less reliable with each successive year. HOWEVER, WE CANNOT ASSURE YOU THAT THE ACTUAL RESULTS OR DEVELOPMENTS WE ANTICIPATE WILL BE REALIZED OR, IF REALIZED, THAT THEY WILL HAVE THE EXPECTED EFFECTS ON OUR BUSINESS OR OPERATIONS.

You are cautioned not to place undue reliance on the financial projections set forth below. We have not made and do not make any representation to the Equity Sponsors or to any stockholder regarding the information included in these financial projections. We do not intend to update or otherwise revise the financial projections below to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the financial projections are shown to be in error.

We first present below a summary of the December final financial projections and provide certain underlying assumptions because the December final financial projections are the most recent and up-to-date projections prepared by our management during the process leading up to the execution of the merger agreement and because they were reviewed by our board before it approved the merger, the merger agreement and the other transactions contemplated by the merger agreement. In addition, our board concurred with management that the December final financial projections reflected the then best available estimates and judgments of management and our board as to our future financial performance. We subsequently present below a summary of the earlier, initial financial projections without accompanying detail solely to provide our stockholders background on financial information received by potential bidders, including the Equity Sponsors, as part of the process leading up to the execution of the merger agreement.

December Final Financial Projections. A summary of the December final financial projections reviewed by our board on December 8, 2006 and subsequently provided to Credit Suisse and the Equity

Sponsors is set forth below. Our management prepared the December final financial projections by updating the initial financial projections incorporated in the Confidential Information Memorandum to reflect management s assessment of the risks associated with executing various strategic initiatives assumed in the financial projections, management s updated estimates resulting from the budgeting process then being finalized by management and the discussions that had occurred between management and various potential bidders.

	Fiscal Year 2007	2008	2009	2010	2011
	(In millions)				
Revenues	$ 1,176	$ 1,275	$ 1,387	$ 1,485	$ 1,579
EBITDA	$ 315	$ 356	$ 397	$ 431	$ 463

The material assumptions made by our management in developing the December final financial projections were as follows:

	Fiscal Year 2007	2008	2009	2010	2011
	(Dollars in millions except per car amounts)				
ADESA Used Car Auction Market Share of Auction Transactions(1)	18.2 %	18.6 %	18.9 %	19.2 %	19.4 %
Consolidated Auction Conversion Rate	64.4 %	64.3 %	64.7 %	64.7 %	64.6 %
Consolidated Auction Revenue Per Car Sold	$ 472	$ 482	$ 488	$ 496	$ 505
Consolidated Auction Direct Expense Per Car Entered Growth	1.7 %	1.8 %	2.3 %	1.6 %	1.4 %
SG&A Expense Growth (Excluding Initiatives)	2.9 %	2.9 %	2.9 %	2.9 %	2.9 %
Growth in Vehicles Financed	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %
Base Capital Expenditures Facilities and Technology	$ 40	$ 40	$ 40	$ 40	$ 40
Strategic Initiatives:					
Acquisitions:					
Capital Expenditures	$ 50	$ 50	$ 50	$ 50	$ 50
Projected Incremental EBITDA	$ 3	$ 11	$ 19	$ 29	$ 39
Dealer Consignment:					
Projected Incremental EBITDA	$ 12	$ 19	$ 25	$ 31	$ 36
Information Technology:					
Incremental Capital Expenditures	$ 36	$ 13	$ 8	$ 7	$ 7
Projected Incremental EBITDA (expense)	$ (14)	$ (5)	$ 1	$ 2	$ 1
Operational Excellence:					
Projected Net Incremental EBITDA	$ 5	$ 9	$ 15	$ 19	$ 23
Relocations:					
Capital Expenditures (proceeds from asset sales)	$ 61	$ 41	$ (19)	$ 0	$ 0
Projected Incremental EBITDA	$ 0	$ 1	$ 2	$ 4	$ 5

(1) Excludes effect of strategic initiatives.

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Initial Financial Projections. A summary of the revenues and EBITDA estimates from the initial financial projections included in the Confidential Information Memorandum is set forth below. The initial set of financial projections was prepared by management to provide potential bidders with an optimistic view of our potential financial prospects, including potential returns from investments in various strategic initiatives. The initial financial projections were not reviewed by our board prior to their distribution to the potential bidders and were not part of our board s decision making process in approving the merger, the merger agreement and the other transactions contemplated by the merger agreement.

	Fiscal Year 2007 (In millions)	**2008**	**2009**	**2010**	**2011**
Revenues	$ 1,197	$ 1,323	$ 1,507	$ 1,642	$ 1,764
EBITDA	$ 329	$ 385	$ 462	$ 522	$ 576

The primary difference between the initial financial projections and the December final financial projections described above is that the initial financial projections did not incorporate management s assessment of the risks associated with executing various strategic initiatives assumed in the financial projections. Our management believes the December final financial projections incorporate a more realistic assessment of the impact of the significant risks associated with implementing our strategic initiatives and achieving the growth assumptions related to both our auction business and our automobile finance business. The primary risks associated with achieving the returns contemplated in the initial financial projections that were factored into our December final financial projections related to our planned investments in information technology, dealer consignment initiatives, the relocation of our existing facilities and the expected benefits associated with our operational excellence initiatives.

The December final financial projections also incorporate less significant changes reflecting our management s updated assumptions on certain key external factors outside our control, including the level of new and used car sales in North America. There are significant risks associated with achieving the assumptions reflected in the initial financial projections, including the expected growth in new car sales, the expected improvements in our share of the auction industry, expected loan transaction growth at our automobile finance business unit and returns expected from certain equity investments.

Financing for the Merger

The total amount of funds necessary to complete the merger is anticipated to be approximately $[___] billion, consisting of approximately $[___] billion to pay our stockholders, option holders and holders of restricted stock units the amounts due to them under the merger agreement, assuming that none of our stockholders properly demands and perfects his, her or its appraisal rights, with the remainder to be applied to refinance certain of our existing indebtedness and to pay customary fees and expenses in connection with the merger, the financing arrangements and the related transactions, and to provide for our future working capital needs.

These payments are expected to be funded by a combination of equity contributions by entities sponsored by, or co-investors with, the Equity Sponsors and debt financing, as well as our available cash. Buyer has obtained equity financing commitments and Holdings has obtained debt financing commitments for the merger and other transactions contemplated by the merger agreement.

Equity Financing

The Equity Sponsors have collectively agreed to cause up to $[___] million of cash to be contributed to Buyer, which will constitute the equity portion of the merger financing. Subject to certain conditions, each of the Equity Sponsors may assign a portion of its equity commitment obligation, provided that it remains obligated to perform its obligations under its equity commitment letter to the extent not performed by such assignee. ValueAct, at its election, may satisfy a portion of its cash equity commitment through the contribution of shares of our common stock held by ValueAct to Buyer immediately prior to the effective time of the merger.

Each of the equity commitments is subject to (i) the terms of the applicable equity commitment letter, (ii) the satisfaction or waiver by Buyer of all of the conditions to Buyer Parties obligation to effect the closing of the merger in accordance with the terms of the merger agreement, and (iii) the substantially concurrent consummation of the merger in accordance with the terms of the merger agreement. In the event that any portion of the financing becomes unavailable on the terms and conditions contemplated by the equity commitment letters, Buyer shall use its reasonable best efforts to obtain alternative financing from alternative sources on comparable or more favorable terms in the aggregate to Buyer than as contemplated by the equity commitment letters (as determined by Buyer in its reasonable good faith judgment), as promptly as practicable, but no later than the earlier of the last day of the marketing period and the final date. Each of the equity commitment letters will terminate automatically and immediately upon the earliest to occur of (i) the effective time of the merger, (ii) the termination of the merger agreement in accordance with its terms, or (iii) the assertion by us or any of our affiliates of any claim under any limited guarantee of any Equity Sponsor or otherwise against any Equity Sponsor in connection with the merger agreement, except for actions taken by us to obtain an injunction to prevent breaches by any of Buyer Parties of the following obligations of Buyer Parties under the merger agreement:

- maintain the confidentiality of our non-public information, obtained by Buyer Parties in connection with their efforts to obtain the financing, pursuant to the confidentiality agreement between us and Kelso;
- consult us prior to making any public announcement or filing;
- not solicit our employees prior to the closing of the merger; and
- not acquire direct or indirect ownership of our common stock prior to the earlier termination of the merger agreement or the effective time of the merger.

Debt Financing

In connection with the execution and delivery of the merger agreement, Holdings has obtained a debt commitment letter from the Lenders to provide up to $[___] billion in debt financing (not all of which is expected to be drawn at closing) consisting of: (i) up to $1.790 billion of senior secured credit facilities; (ii) up to $600 million of senior unsecured bridge loans under a bridge facility; and (iii) up to $500 million of senior subordinated unsecured bridge loans under a bridge facility to finance, in part, the merger, repaying or refinancing certain of our and our subsidiaries existing indebtedness and paying fees and expenses incurred in connection with the merger. The senior unsecured bridge loan facility and the senior subordinated unsecured bridge loan facility are expected to be utilized no later than the earlier of (i) the last day of the marketing period and (ii) the final date, but only in the event that (A) one or more of the note offerings has not been consummated in an aggregate amount equal to the commitments under their respective bridge facilities, (B) all of the conditions to each party s obligation to close the merger have been satisfied (other than the actual delivery of officers certificates and the actual receipt of the proceeds from the debt financing), and (C) the bridge facilities contemplated by the debt commitment letters are available on the terms and conditions described in the debt commitment letters.

The debt commitments expire no later than July 31, 2007. The documentation governing the senior secured credit facilities and the bridge facilities has not been finalized and, accordingly, their actual terms may differ from those described in this proxy statement. Buyer Parties have agreed to use their reasonable best efforts to arrange the debt financing on the terms and conditions described in the debt commitment letters. In the event that any portion of the financing becomes unavailable on the terms and conditions contemplated by the debt commitment letters, Buyer shall use its reasonable best efforts to obtain alternative financing from alternative sources on comparable or more favorable terms in the aggregate to Buyer than as contemplated by the debt commitment letters (as determined by Buyer in its reasonable good faith judgment), as promptly as practicable, but no later than the earlier of the last day of the marketing period and the final date.

The availability of the senior secured credit facilities and the bridge facilities are subject to, among other conditions, satisfaction of the condition that since September 30, 2006, there shall not have occurred any company material adverse effect; establishment of a commercial securitization facility for the purposes of purchasing certain finance receivables from Automotive Finance Corporation; the receipt by Holdings of cash equity contributions which, together with any rollover equity (including, without limitation, the contribution of IAAI to Holdings), constitute an aggregate amount equal to at least 25% of the pro forma total consolidated capitalization of Holdings and its subsidiaries after giving effect to the closing; the receipt of certain financial statements; consummation of the merger in accordance with the merger agreement (without giving effect to any amendments or waivers by Buyer Parties that are materially adverse to the Lenders without the consent of the Lenders); payment of required fees and expenses and the negotiation; and execution and delivery of definitive documentation for the senior secured credit facilities and the bridge facilities.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors with respect to the merger agreement, our stockholders should be aware that some of our directors and executive officers have interests in the merger and have arrangements that are different from, or in addition to, those of our stockholders generally. These interests and arrangements may present actual or potential conflicts of interest. Our board of directors was aware of these potential conflicts of interest and considered them, among other matters, in reaching its decisions to approve the merger agreement and to recommend that our stockholders vote in favor of the adoption and approval of the merger agreement. Two of our directors that also serve as executive officers, Messrs. Gartzke and Sales, recused themselves from all board deliberations and decisions relating to the merger agreement and have had no discussions with representatives of any Equity Sponsor or its affiliates concerning employment with the surviving corporation following the closing of the merger.

Treatment of Stock Options

As of January 15, 2007, there were approximately 2,215,566 shares of our common stock issuable pursuant to stock options granted under the 2004 Equity Plan to our current executive officers and directors. Under the terms of the merger agreement, each outstanding option held by an executive officer or director that is unexercised as of the effective time of the merger will accelerate and become fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the outstanding options multiplied by the amount (if any) by which $27.85 exceeds the option exercise price, without interest and less any applicable withholding taxes.

The following table identifies, for each of our directors and executive officers, the aggregate number of shares of our common stock subject to outstanding vested and unvested options as of January 15, 2007, the aggregate number of shares of our common stock subject to outstanding unvested options, the weighted average exercise price of the aggregate options and the approximate consideration to be received pursuant to the merger agreement in connection with the cancellation of such options. The information in the table assumes that all options remain outstanding immediately prior to the effective time of the merger.

Name	Aggregate Shares Subject to Options	Number of Shares Underlying Unvested Options	Weighted Average Exercise Price of Vested and Unvested Options	Approximate Consideration (1)
Directors				
Wynn Van Bussmann	4,892		$ 16.3797	$ 56,113
Thomas Cunningham	2,446		$ 14.2667	$ 33,225
Dennis O. Green	1,427		$ 15.9963	$ 16,915
Nick Smith	10,825		$ 14.7281	$ 142,045
Donald C. Wegmiller	14,596		$ 13.5277	$ 209,048
Deborah Weinstein	1,427		$ 15.9963	$ 16,915
Executive Officers				
David G. Gartzke	998,306		$ 20.7379	$ 7,100,041
A. R. Sales	50,000	50,000	$ 25.3200	$ 126,500
Cameron C. Hitchcock	215,580		$ 24.0000	$ 829,983
Bradley A. Todd	288,910		$ 23.2943	$ 1,316,192
George J. Lawrence	159,348		$ 24.0000	$ 613,490
Curtis L. Phillips	69,254	7,927	$ 22.6972	$ 356,850
Scott A. Anderson	60,948	7,345	$ 23.4363	$ 269,009
Brenda J. Flayton	184,386		$ 22.6843	$ 952,477
Ronald Beaver	30,000	30,000	$ 25.5950	$ 67,650
Charles R Tapp	106,232		$ 24.0000	$ 408,993
Jonathan L. Peisner	16,989	14,382	$ 24.8633	$ 50,741
Timothy C. Clayton				
All Directors and Executive Officers	2,215,566	109,654	$ 22.1782	$ 12,566,187

(1) Illustrates the approximate consideration to be received pursuant to the merger agreement in connection with the cancellation of outstanding stock options. Calculated for each individual by multiplying the aggregate number of shares subject to options by the difference between $27.85 (the per share amount of merger consideration) and the weighted average exercise price of all such options.

Treatment of Restricted Stock Units

As of January 15, 2007, there were approximately 137,664.914 restricted stock units granted under the 2004 Equity Plan and held by our current executive officers. Under the terms of the merger agreement, each restricted stock unit held by an executive officer that is outstanding as of the effective time of the merger will be accelerated and become fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of outstanding restricted stock units multiplied by $27.85, without interest and less any applicable withholding taxes.

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The following table identifies, for each of our executive officers, the aggregate number of shares of our common stock subject to outstanding restricted stock units as of January 15, 2007, the number of unvested restricted stock units and the approximate consideration to be received pursuant to the merger agreement in connection with the cancellation of such restricted stock units. The information in the table assumes that all such restricted stock units remain outstanding immediately prior to the effective time of the merger.

Name	Aggregate Shares Subject to Restricted Stock Units		Number of Unvested Restricted Stock Units		Approximate Consideration (1)	
David G. Gartzke	52,587.422	(2)	52,587.422	(2)	$	1,464,560
A. R. Sales	5,000.000		5,000.000		$	139,250
Cameron C. Hitchcock	20,983.735	(2)	20,983.735	(2)	$	584,397
Bradley A. Todd	20,031.735	(2)	20,031.735	(2)	$	557,884
George J. Lawrence	11,790.522	(2)	11,790.522	(2)	$	328,366
Curtis L. Phillips	3,075.382	(2)	3,075.382	(2)	$	85,649
Scott A. Anderson	3,037.382	(2)	3,037.382	(2)	$	84,591
Brenda J. Flayton	12,321.229	(2)	12,321.229	(2)	$	343,146
Ronald Beaver	2,000.000		2,000.000		$	55,700
Charles R Tapp	6,837.507	(2)	6,837.507	(2)	$	190,425
Jonathan L. Peisner						
Timothy C. Clayton						
All Executive Officers	137,664.914		137,664.914		$	3,833,968

(1) Illustrates the approximate consideration to be received pursuant to the merger agreement in connection with the cancellation of outstanding restricted stock units. Calculated for each individual by multiplying the aggregate number of restricted stock units by $27.85 (the per share amount of merger consideration).

(2) Includes accrued dividend equivalents paid through December 31, 2006 on restricted stock units granted in connection with our initial public offering.

Change in Control Agreements

We have entered into change in control agreements with the following executive officers: Scott A. Anderson, Ron Beaver, Brenda J. Flayton, David G. Gartzke, Cameron C. Hitchcock, George J. Lawrence, Jonathan L. Peisner, Curt L. Phillips, A. R. Sales, Charles R Tapp and Bradley A. Todd, each effective as of December 21, 2006. The pending merger, if consummated, will constitute a change in control for purposes of these change in control agreements. Under the change in control agreements, each executive officer will be entitled to receive the following change in control payments and benefits if, at any time prior to the second anniversary of the merger (or the third anniversary of the merger, with respect to Messrs. Gartzke and Sales), such executive officer s employment is terminated by us without cause or terminated by the executive officer for good reason (in each case as defined below):

- a lump sum cash payment equal to the aggregate of the executive officer s (i) base salary earned and unpaid through the termination date, (ii) accrued but unpaid vacation, (iii) unreimbursed expenses and (iii) pro-rata target bonus earned and unpaid for the year in which the termination occurs (minus any other cash bonuses paid under the 2004 Equity and Incentive Plan upon a change in control);

- a lump sum cash payment equal to one times (with respect to Messrs. Peisner, Phillips and Anderson), two times (with respect to Ms. Flayton and Messrs. Beaver, Hitchcock, Lawrence, Tapp

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and Todd), or three times (with respect to Messrs. Gartke and Sales) the sum of the executive officer s (i) base salary (the higher of the executive officer s base salary immediately prior to the change in control or at any time after the change in control) and (ii) annual target bonus (the higher of the executive officer s annual target bonus for the fiscal year of the change in control or the fiscal year of the termination);

- all amounts vested or accrued prior to the termination date under all incentive, compensation and employee benefit plans will be paid in accordance with the terms of such plans;

- a lump sum cash payment equal to $1,400 per month for each month under each executive officer s protection period (two years from the effective time of the merger with respect to all of the executives, except for Messrs. Gartzke and Sales, who are protected for three years from the effective time of the merger) for health insurance coverage;

- a lump sum cash payment equal of $15,000, with respect to Messrs. Gartzke and Sales, $10,000, with respect to Ms. Flayton and Messrs. Beaver, Hitchcock, Lawrence, Tapp and Todd, and $5,000, with respect to Messrs. Peisner, Phillips and Anderson for life insurance benefits;

- outplacement services with an in-kind value not exceeding $12,000;

- with respect to Mr. Gartzke and Ms. Flayton, continued payment of certain term life insurance premiums after a change in control, provided that upon termination of his or her employment, such term life insurance may be assigned to each of them at their option and provided further that each of them would be responsible for their own premiums thereafter; and

- with respect to Mr. Gartzke and Ms. Flayton, payment of all remaining amounts payable by us in lieu of the payment that Mr. Gartzke or Ms. Flayton would have received under the ALLETE, Inc. Supplemental Executive Retirement Plan had Mr. Gartzke and Ms. Flayton continued his or her employment with ALLETE, Inc. (our parent company prior to our spin-off in September 2004).

In lieu of the lump sum cash payment specified in the second bullet point above, each of Messrs. Beaver, Lawrence and Sales have elected under their respective change in control agreements to receive a lesser amount of the lump sum cash payment, subject to the completion of the merger, equal to one and a half times (with respect to Messrs. Beaver and Lawrence) or two times (with respect to Mr. Sales) the sum of the executive officer s (i) base salary (the executive officer s base salary immediately prior to the change in control) and (ii) annual target bonus (the executive officer s annual target bonus for the fiscal year of the change in control). None of the change in control agreements with executive officers other than Messrs. Beaver, Lawrence and Sales provide for such election.

The election of each of Messrs. Beaver, Lawrence and Sales has no effect on their eligibility to receive the other benefits set forth above, subject to completion of the merger. Under the respective change in control agreements, the employment of each of Messrs. Beaver, Lawrence and Sales will terminate upon the effective date of the merger, provided that we may, at our discretion, ask each of them to continue as a consultant for not more than 30 days thereafter.

For purposes of the change in control agreements, cause means the occurrence of any of the following events:

- willful and continued failure by an executive officer to substantially perform his or her duties for at least 30 days after written notice of such deficiency;

- willful misconduct or gross negligence by an executive officer which is demonstrably and materially injurious to us;

- material violation of our published standards of business conduct; or

- an executive officer is convicted of, or has entered a plea of nolo contendere to a felony or any crime involving dishonesty, fraud, embezzlement or breach of trust.

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For purposes of the change in control agreements, good reason means the occurrence of any of the following events after a change in control:

- a substantive adverse change in an executive officer s authority, duties, responsibilities or position;
- reduction in an executive officer s base salary or target annual bonus opportunity;
- reduction in an executive officer s benefits or fringe benefits that is not the result of an across-the-board change affecting all executive officers;
- except for standard travel requirements, relocation of an executive officer in excess of a 50-mile radius of the location at which the executive officer was based prior to the change in control;
- failure of our successor to assume our obligations under the change in control agreements;
- our failure to provide an executive officer with a notice of termination pursuant to his or her change in control agreement; or
- with respect to Ms. Flayton only, termination of Mr. Gartzke as our Chief Executive Officer.

For purposes of the definition of good reason under the change in control agreements, in determining whether a change, reduction or relocation has occurred or is permissible, the circumstances of an executive officer s employment during the period at issue are compared to those existing immediately prior to the change in control. An event is not deemed good reason if: (i) an executive officer fails to provide notice to us of an event that constitutes good reason within 6 months; (ii) an executive officer fails to provide us with a 30-day cure period; or (iii) we do not provide a notice of termination to an executive officer within 90 days following the expiration of the 30-day cure period.

Each change in control agreement provides that if an executive officer receives any change in control payments or benefits under a change in control agreement, such executive officer will not be entitled to receive any payments or benefits under any other arrangement, including under any existing severance agreement described below (see *Severance Agreements*), with the exception of Ms. Flayton, who will continue to be entitled to the retiree medical benefits described below (see *Flayton Retiree Medical Benefits*).

Each change in control agreement also provides that if the aggregate value of the change in control payments and benefits for any executive officer exceeds the safe harbor limit under Section 280G of the Internal Revenue Code of 1986, as amended (the Code), the aggregate value of such executive officer s change in control payments and benefits will be cut back below the safe harbor limit if the executive officer would receive more money than if the executive officer had received the entire change in control payments and benefits and paid the 20% excise tax that would be applicable to the change in control payments and benefits under Section 280G of the Code if the safe harbor limit is exceeded. Each executive officer is responsible for paying any federal excise tax imposed on his or her change in control payments or benefits received pursuant to his or her respective change in control agreements, as the agreements do not provide for gross-up payments by us to make the executive officers whole for any such federal excise tax that may be imposed.

Based on the assumptions that the effective date of the merger is May 1, 2007 and the employment of each of the executive officers is terminated as of the effective date of the merger, the aggregate value of the change in control payments and benefits of each executive officer is set forth in the table below:

Name	**Aggregate Value of Change in Control Payments and Benefits (1), (2)**	
Scott A. Anderson	$	325,220
Ronald Beaver	$	694,975
Brenda J. Flayton	$	1,058,921
David G. Gartzke	$	4,682,102
Cameron C. Hitchcock	$	1,262,417
George J. Lawrence	$	829,360
Jonathan L. Peisner	$	345,613
Curtis L. Phillips	$	339,442
A. R. Sales	$	1,747,817
Charles R Tapp	$	788,933
Bradley A. Todd	$	1,109,467
Total	$	13,184,267

(1) Amounts do not include the value of any stock options or restricted stock units, which under the terms of our 2004 Equity Plan will automatically vest and be cancelled at the effective time of the merger.

(2) Amounts do not include the value of distributions under the SERP that will be made to the SERP participants as soon as practicable after the effective time of the merger.

Severance Agreements

We have entered into severance agreements with Ms. Flayton and Mr. Hitchcock, which will remain in effect through June 1, 2009 and December 31, 2008, respectively. If an executive officer elects to receive severance payments or benefits under a severance agreement, such executive officer will not be entitled to receive any other payments or benefits under a change in control agreement described above, see *Change in Control Agreements*.

Under the terms of Mr. Hitchcock s severance agreement, he is entitled to receive the following severance and other benefits upon our termination of his employment without cause or resignation by him for good reason (as defined below) during the term of his agreement:

- a lump sum cash payment equal to two times the sum of his (i) base salary (the higher of his base salary immediately prior to the termination or prior to the first event or circumstance constituting good reason) and (ii) annual target bonus (the higher of his target annual bonus for the fiscal year of the termination or the fiscal year of the first event or circumstance constituting good reason); and

- continuation of life, accident and health insurance benefits for him and his dependents on terms substantially similar to those provided immediately prior to the termination or resignation for good reason for twelve months following the termination or resignation.

Under the terms of Ms. Flayton s severance agreement, upon our termination of her employment without cause or resignation by her for good reason during the term of her agreement and Mr. Gartzke is no longer our Chief Executive Officer, she will be entitled to a lump sum cash payment equal to two times the sum of her (i) base salary (the higher of her base salary immediately prior to her termination or prior to the first event or circumstance constituting good reason) and (ii) annual target bonus (the higher of her target annual bonus for the fiscal year of the termination or the fiscal year of the first event or circumstance constituting good reason).

For purposes of the severance agreements, cause means the occurrence of any of the following events:

- willful and continued failure by an executive officer to substantially perform his or her duties for at least 30 days after written notice of such deficiency;
- willful engagement in wrongful conduct by an executive officer which is demonstrably and materially injurious to us; or
- an executive officer is convicted of, or has entered a plea of nolo contendere to a felony.

For purposes of the severance agreements, good reason means the occurrence of any of the following events:

- a substantial adverse change in an executive officer s duties or responsibilities;
- a substantial reduction in an executive officer s compensation or benefits that is not the result of an across-the-board change affecting all executive officers;
- relocation of an executive officer in excess of a 50-mile radius from Indianapolis, Indiana; or
- our failure to provide an executive officer with a notice of termination pursuant to his or her severance agreement.

We have also entered into severance agreements with Messrs. Beaver, Lawrence and Sales, but each of them has elected to receive payments, subject to the completion of the merger, under his respective change in control agreement, as described above under *Change in Control Agreements* and, as a result, will not be entitled to receive any payments or benefits in the event of a change in control under his respective severance agreement.

Director Compensation Deferral Plan

Our board of directors has approved the termination of the Director Deferral Plan as of the effective time of the merger. We will cause all accrued account balances under the Director Deferral Plan to be distributed in cash to participants, promptly after the effective time of the merger, less any required withholding taxes.

The following table shows the account balances of our director participants as of January 1, 2007 in the Director Deferral Plan.

Name	**Account Balance**
Wynn Van Bussmann	$ 129,820
Thomas Cunningham	$ 172,505
Dennis O. Green	$ 157,735
Donald C. Wegmiller	$ 341,191
Total	$ 801,251

Supplemental Executive Retirement Plan

Our board of directors has approved the termination of the SERP as of the effective time of the merger. We will cause all accrued account balances under the SERP to be distributed in cash to participants, promptly after the effective time of the merger, less any required withholding taxes.

The following table shows the account balances of our executive officer participants as of January 1, 2007 in the SERP, the 40% gross-up value payable to our executive officer participants to cover their

income tax liability as a result of their SERP payments and the total account balances (including the 40% gross-up value) that will be distributed to our executive officer participants under the SERP.

The SERP also provides executive officers and employees who participate in the SERP and whose salaries exceed the salary limitations for tax-qualified plans imposed by the Code with additional benefits such that they receive in the aggregate the benefits they would have been entitled to receive had such limitations not been imposed. In the event the merger is consummated, the gross distribution payable to any participant will be increased by 40% to cover any income tax liability and will immediately be distributable subject to Section 409(A) of the Code.

Name	Account Balance	40% Gross-Up Value	Total Account Balance (including 40% Gross-Up)
Scott A. Anderson	$ 76,203	$ 30,481	$ 106,684
Ronald Beaver	$ 53,481	$ 21,392	$ 74,873
Brenda J. Flayton	$ 360,668	$ 144,267	$ 504,935
David G. Gartzke	$ 1,417,732	$ 567,093	$ 1,984,825
Cameron C. Hitchcock	$ 257,342	$ 102,937	$ 360,279
George J. Lawrence	$ 63,025	$ 25,210	$ 88,235
Jonathan L. Peisner	$ 47,814	$ 19,126	$ 66,940
Curtis L. Phillips	$ 116,064	$ 46,426	$ 162,490
A. R. Sales	$ 36,023	$ 14,409	$ 50,432
Charles R Tapp	$ 96,157	$ 38,463	$ 134,620
Bradley A. Todd	$ 615,805	$ 246,322	$ 862,127
Total	$ 3,140,314	$ 1,256,126	$ 4,396,440

Transaction Bonus Agreement

On December 21, 2006, we entered into a transaction bonus agreement with Mr. Clayton, our interim Chief Financial Officer. The agreement provides for the payment of a lump sum transaction bonus to Mr. Clayton in the amount of $620,000, contingent upon the consummation of the merger and provided that Mr. Clayton does not terminate his contract with us relating to his position as our interim Chief Financial Officer prior to the earlier of (i) June 30, 2007 or (ii) the consummation of the merger.

Flayton Retiree Medical Benefits

Ms. Flayton is entitled to receive benefits under the ALLETE, Inc. Affiliated Companies Retirees Health Plan A (the ALLETE Retiree Plan). Following our spin-off from ALLETE in September 2004 and in connection with Ms. Flayton s employment with us, we committed that in the event that Ms. Flayton ceases to be entitled to receive benefits under the ALLETE Retiree Plan under specified circumstances, we will, at our election and through the date of Ms. Flayton s death, either (i) allow her to participate in a health benefit plan that is substantially similar, in all material respects, to the ALLETE Retiree Plan (a Comparable Plan), or (ii) reimburse her on a quarterly basis for an amount equal to 75% of the quarterly premium payable on a Comparable Plan. Our assumption of the foregoing obligations has been memorialized in a letter agreement with Ms. Flayton and shall be observed by the surviving corporation after consummation of the merger.

Even if Ms. Flayton is entitled to receive severance payments or benefits under her change in control agreement or severance agreement described above, as applicable, she will continue to be entitled to the retiree medical benefits set forth in her letter agreement.

Indemnification of Directors and Officers; Directors and Officers Insurance

On December 21, 2006, we entered into revised indemnification agreements with each of our directors and new indemnification agreements with the following executive officers: Ms. Flayton and Messrs. Anderson, Beaver, Clayton, Hitchcock, Lawrence, Peisner, Phillips, Tapp and Todd. Each indemnification agreement provides, among other things, that we will indemnify the indemnified person to the fullest extent permitted by law, including advancement of legal fees and other expenses incurred by such person in connection with any legal proceedings arising out of such person s service as a director and/or executive officer, subject to certain exclusions and conditions set forth in each indemnification agreement.

Our directors and officers are entitled to continued indemnification and insurance coverage under the merger agreement (see *The Merger Agreement Indemnification of Directors and Officers*, beginning on page 80).

Arrangements with the Equity Sponsors

As of the date of this proxy statement, no member of our management team has entered into any agreement, arrangement or understanding with any Equity Sponsor or its affiliates regarding employment with, or the right to purchase or participate in the equity of, the surviving corporation. In addition, as of the date of this proxy statement, no member of our board of directors has entered into any agreement, arrangement or understanding with any Equity Sponsor or its affiliates regarding any position on the board of, or the right to purchase or participate in the equity of, the surviving corporation.

Past Contacts, Transactions or Negotiations

Except as described below and as set forth in this proxy statement, there have not been any negotiations, transactions or material contacts during the past two years concerning any merger, consolidation, acquisition, tender offer or other acquisition of any class of our securities, election of our directors or sale or other transfer of a material amount of our assets between (i) us or any of our affiliates, and (ii) any of the Equity Sponsors or any of their respective affiliates:

IAAI

From November 2004 through February 2005, we were involved in reviewing a potential acquisition of IAAI. We decided not to proceed with the potential acquisition, but IAAI was acquired by Kelso and Parthenon in May 2005. ValueAct, IAAI s largest stockholder prior to the acquisition, agreed to vote all of its shares of IAAI common stock in favor of the acquisition.

IAAI and Kelso

Our negotiations, transactions or material contacts with IAAI and Kelso during the past two years regarding a potential joint venture or combination of our respective salvage auction business are described above under *Background of the Merger* on page 26.

ValueAct

On November 23, 2005, ValueAct, VA Partners, L.L.C., Jeffrey W. Ubben, George F. Hamel, Jr. and Peter H. Kamin filed a Schedule 13D with the SEC and disclosed that as of November 22, 2005, ValueAct and its affiliates were the beneficial owners of 4,735,100 shares of our common stock, representing approximately 5.3% of our then outstanding common stock. The Schedule 13D also disclosed that from September 23, 2005 through November 21, 2005, ValueAct and its affiliates acquired an aggregate of 2,856,000 shares of our common stock through a series of open market purchases.

On May 12, 2006, ValueAct, VA Partners, L.L.C., ValueAct Capital Management, L.P., ValueAct Capital Management, LLC, Jeffrey W. Ubben, George F. Hamel, Jr. and Peter H. Kamin filed an amended Schedule 13D with the SEC and disclosed that as of May 11, 2006, ValueAct and its affiliates were the beneficial owners of 3,434,700 shares of our common stock, representing approximately 3.8% of our then outstanding common stock. The amended Schedule 13D also disclosed that from April 18, 2006 through May 9, 2006, ValueAct and its affiliates disposed of an aggregate of 1,246,500 shares of our common stock through a series of open market sales.

From May 11, 2006 through September 11, 2006, ValueAct and its affiliates disposed of an aggregate of 56,900 shares of our common stock through two open market sales and acquired an aggregate of 301,400 shares of our common stock through a series of open market purchases.

Delisting and Deregistration of Our Common Stock

If the merger is completed, our common stock will be delisted from the NYSE and deregistered under the Securities Exchange Act of 1934, as amended, and we will no longer file periodic reports with the SEC on account of our common stock.

Material U.S. Federal Income Tax Consequences

The following is a summary of the material U.S. federal income tax consequences of the merger to holders whose shares of our common stock are surrendered for cash in the merger. The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Code, regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (the IRS), and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences described below.

This summary is for general information only and does not address all U.S. federal income consequences of the merger that may be important to a particular holder in light of its investment or tax circumstances (such as persons who acquired our common stock pursuant to the exercise of any employee stock option or otherwise as compensation for services) or to holders subject to special tax rules (such as banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organizations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; expatriates of the United States; persons subject to the alternative minimum tax; persons holding our common stock as part of a straddle, hedge, conversion transaction, or other integrated transaction; and U.S. Holders (as defined below) whose functional currency is other than the U.S. dollar.

In addition, this summary does not address the exercise of dissenters rights, the receipt of cash in connection with the cancellation of restricted stock units or options to purchase shares, or any other matters relating to equity compensation or benefit plans. You should consult your own tax advisor regarding such matters.

This discussion is not a comprehensive description of all U.S. federal tax consequences of the merger that may be relevant to holders of our common stock. It does not address any estate, gift, or alternative minimum tax consequences. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal tax consequences to you of the merger, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.

This summary is directed solely to persons who hold our common stock as a capital asset within the meaning of Section 1221 of the Code, which generally means as property held for investment. For purposes of this discussion, the term U.S. Holder means a beneficial owner of our common stock that is any of the following:

- a citizen or resident of the United States or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a U.S. court can exercise primary supervision over the trust s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or
- a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The term Non-U.S. Holder means a beneficial owner of our common stock that is not a U.S. Holder. As described in Taxation of Non-U.S. Holders below, the tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our common stock, the U.S. federal income tax consequences to a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of our common stock that is a partnership and the partners in such partnership should consult their own tax advisors regarding the U.S. federal income tax consequences of the merger.

Taxation of U.S. Holders

The merger will be treated for U.S. federal income tax purposes as a fully taxable sale of stock by each U.S. Holder whose shares of our common stock are surrendered for cash in the merger. As a result, each U.S. Holder will recognize gain or loss measured by the difference, if any, between the amount of cash received with respect to such shares and the holder s tax basis in such shares. The amount of gain or loss will be determined separately for each block of shares (i.e., shares acquired at the same cost in a single transaction). In general, any gain or loss recognized by a U.S. Holder in connection with the merger will be capital gain or loss, and will be long-term capital gain or loss if the holder s holding period for the shares is more than one year as of the effective time of the merger. The deductibility of capital losses is significantly limited.

Taxation of Non-U.S. Holders

Except as discussed in Information Reporting and Backup Withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal income tax (including withholding tax) on any gain recognized upon the surrender of shares of our common stock for cash in the merger, unless (i) the gain is effectively connected with a trade or business that the holder conducts in the United States and (if an applicable income tax treaty so requires) attributable to a permanent establishment that the holder maintains in the United States, or (ii) the holder is an individual and is present in the United States for at least 183 days in the taxable year of the disposition, and certain other conditions are present.

If a Non-U.S. Holder meets the test in clause (i) above, the holder generally will be subject to tax on any gain that is effectively connected with the holder s conduct of a trade or business in the United States in the same manner as a U.S. Holder, as described in Taxation of U.S. Holders above. Effectively connected gain realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If a Non-U.S. Holder meets the test in clause (ii) above, the holder generally will be subject to tax at a 30% rate on the amount by which the holder s U.S. source capital gain exceeds the holder s U.S. source capital loss.

A Non-U.S. Holder would also be subject to U.S. federal income tax on any gain recognized upon the surrender of shares of our common stock for cash in the merger if we were a United States real property holding corporation at any time within the past five years (or, if shorter, during the holder s holding period for shares of our common stock). We do not believe that we currently are, or have been within the past five years, a United States real property holding corporation.

Information Reporting and Backup Withholding

Generally, information reporting requirements will apply to proceeds from a U.S. Holder s disposition of our common stock in the merger if such proceeds are paid within the United States (and, in certain cases, outside the United States), unless the holder is an exempt recipient such as a corporation. Furthermore, backup withholding (currently at 28%) may apply to such amounts unless such U.S. Holder (i) is an exempt recipient that, if required, establishes its right to an exemption, or (ii) provides its taxpayer identification number, certifies that it is not currently subject to backup withholding, and complies with other applicable requirements. A U.S. Holder may generally avoid backup withholding by furnishing a properly completed IRS Form W-9 or substitute form.

Payments to Non-U.S. Holders of proceeds from the disposition of our common stock in the merger are generally exempt from information reporting and backup withholding. However, a Non-U.S. Holder may be required to establish that exemption by providing certification of non-U.S. status on an appropriate IRS Form W-8.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Appraisal Rights

Under the DGCL, you have the right to dissent from the merger and to receive payment in cash for the fair value of your common stock as determined by the Delaware Court of Chancery, together with a fair rate of interest, if any, as determined by the court, in lieu of the consideration you would otherwise be entitled to under the merger agreement. These rights are known as appraisal rights. Our stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the DGCL in order to perfect their rights. We will require strict compliance with the statutory procedures.

The following is intended as a brief summary of the material provisions of the Delaware statutory procedures required to be followed by a stockholder in order to dissent from the merger and perfect appraisal rights.

This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262 of the DGCL, the full text of which appears in Annex D to this proxy statement. Failure to precisely follow any of the statutory procedures set forth in Section 262 of the DGCL may result in a termination or waiver of your appraisal rights.

Section 262 requires that stockholders be notified that appraisal rights will be available not less than 20 days before the stockholders meeting to vote on the merger. A copy of Section 262 must be included with such notice. This proxy statement constitutes our notice to our stockholders of the availability of appraisal rights in connection with the merger in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in Annex D since failure to timely and properly comply with the requirements of Section 262 will result in the loss of your appraisal rights under the DGCL.

If you elect to demand appraisal of your shares, you must satisfy each of the following conditions:

- You must deliver to us a written demand for appraisal of your shares before the vote with respect to the merger is taken. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or voting against the adoption and approval of the merger agreement. Voting against or failing to vote for the adoption and approval of the merger agreement by itself does not constitute a demand for appraisal within the meaning of Section 262.

- You must not vote in favor of the adoption and approval of the merger agreement. A vote in favor of the adoption and approval of the merger agreement, by proxy, over the Internet, by telephone or in person, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal. A proxy card which is signed and does not contain voting instructions will, unless revoked, be voted FOR the adoption and approval of the merger agreement and will constitute a waiver of your right of appraisal and will nullify any previous written demand for appraisal.

- You must continuously hold your shares of our common stock through the effective time of the merger.

If you fail to comply with any of the above conditions and the merger is completed, you will be entitled to receive the cash payment for your shares of common stock as provided for in the merger agreement, but you will have no appraisal rights with respect to your shares of common stock.

All demands for appraisal should be addressed to ADESA, Inc., 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032, Attention: George J. Lawrence, Corporate Secretary, and must be delivered before the vote on the merger agreement is taken at the special meeting, and should be executed by, or on behalf of, the record holder of the shares of common stock. The demand must reasonably inform us of the identity of the stockholder and the intention of the stockholder to demand appraisal of his, her or its shares.

To be effective, a demand for appraisal by a holder of common stock must be made by, or in the name of, such registered stockholder, fully and correctly, as the stockholder s name appears on his, her or its stock certificate(s). **Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to us. The beneficial holder must, in such cases, have the registered owner, such as a broker, dealer, bank or other financial institution that serves as the beneficial holder s nominee, submit the required demand in respect of those shares.** If shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made by or for the fiduciary; and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he, she or it is acting as agent for the record owner. A record owner, such as a broker, who holds shares as a nominee for others, may exercise his, her or its right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares as to which appraisal is sought. Where no number of shares is expressly mentioned, the demand will be presumed to cover all shares held in the name of the record owner.

If you hold your shares of common stock in a brokerage account or in other nominee form and you wish to exercise appraisal rights, you should consult with your broker, dealer, bank or other financial institution that serves as your nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

Within 10 days after the effective time of the merger, the surviving corporation must give written notice that the merger has become effective to each stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger agreement. At any time within 60 days after the effective time, any stockholder who has demanded an appraisal has the right to withdraw the demand and to accept the cash payment specified by the merger agreement for his, her or its shares of common stock. Within 120 days after the effective date of the merger, any stockholder who has complied with Section 262 shall, upon written request to the surviving corporation, be entitled to receive a written statement setting forth the aggregate number of shares not voted in favor of the merger agreement and with respect to which demands for appraisal rights have been received and the aggregate number of holders of such shares. Such written statement will be mailed to the requesting stockholder within 10 days after such written request is received by the surviving corporation or within 10 days after expiration of the period for delivery of demands for appraisal, whichever is later. Within 120 days after the effective time, either the surviving corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all stockholders entitled to appraisal. Upon the filing of the petition by a stockholder, service of a copy of such petition shall be made upon the surviving corporation. The surviving corporation has no obligation, and has no present intention, to file such a petition in the event there are dissenting stockholders. Accordingly, the failure of a stockholder to file such a petition within the period specified could nullify the stockholder s previously written demand for appraisal.

If a petition for appraisal is duly filed by a stockholder and a copy of the petition is delivered to the surviving corporation, the surviving corporation will then be obligated, within 20 days after receiving service of a copy of the petition, to provide the Delaware Court of Chancery with a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached by the surviving corporation. After notice to dissenting stockholders who demanded appraisal of their shares, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition, and to determine those stockholders who have complied with Section 262 and who have become entitled to the appraisal rights provided thereby. The Delaware Court of Chancery may require the stockholders who have demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with that direction, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determination of the stockholders entitled to appraisal of their shares of our common stock, the Delaware Court of Chancery will appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any. When the value is determined, the Delaware Court of Chancery will direct the payment of such value, with interest thereon accrued during the pendency of the proceeding, if the Delaware Court of Chancery so determines, to the stockholders entitled to receive the same, upon surrender by such holders of the certificates representing those shares.

In determining fair value, the Delaware Court of Chancery is required to take into account all relevant factors. **You should be aware that the fair value of your shares as determined under Section 262 could be more than, the same as or less than the amount that you are entitled to receive under the terms of the merger agreement.**

Costs of the appraisal proceeding may be imposed upon the surviving corporation and the stockholders participating in the appraisal proceeding by the Delaware Court of Chancery as the Delaware Court of Chancery deems equitable in the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Any stockholder who had demanded appraisal rights will not, after the effective time of the merger, be entitled to vote shares subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares, other than with respect to payment as of a record date prior to the effective time; however, if no petition for appraisal is filed within 120 days after the effective time of the merger, or if the stockholder delivers a written withdrawal of his, her or its demand for appraisal and an acceptance of the terms of the merger within 60 days after the effective time of the merger, then the right of that stockholder to appraisal will cease and that stockholder will be entitled to receive the cash payment for shares of his, her or its common stock pursuant to the merger agreement. Any withdrawal of a demand for appraisal made more than 60 days after the effective time of the merger may only be made with the written approval of the surviving corporation and must, to be effective, be made within 120 days after the effective time.

In view of the complexity of Section 262, our stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

Regulatory Approvals

Hart-Scott-Rodino

Under the HSR Act, and the rules promulgated thereunder, the merger may not be consummated until notifications have been given and certain information has been furnished to the FTC and the Antitrust Division and the specified waiting period requirements have been satisfied. We and Buyer filed the required notification and report forms under the HSR Act with the FTC and the Antitrust Division. On January 24, 2007, the parties obtained the required approval under the HSR Act to complete the merger.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions such as the merger. At any time before or after the consummation of the merger, and notwithstanding that the HSR Act waiting period has expired, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the consummation of the merger or seeking divestiture of certain assets or businesses of the parties. At any time before or after the consummation of the merger, and notwithstanding that the HSR Act waiting period has expired, any state could take such action under the antitrust laws as it deems necessary or desirable in the public interest. Such action could include seeking to enjoin the consummation of the merger or seeking divestiture of certain assets or businesses. Private parties may also seek to take legal action under the antitrust laws under certain circumstances.

We are not aware of any approvals that are necessary under foreign antitrust laws. The parties believe that the merger can be effected in compliance with all applicable antitrust laws. However, we cannot provide any assurance that a challenge to the consummation of the merger on antitrust grounds will not be made or that, if such a challenge were made, the parties would prevail or would not be required to accept certain conditions, possibly including certain divestitures, in order to consummate the merger.

Litigation Regarding the Merger

On January 12, 2007, a stockholder class action complaint was filed against us, our directors and the Equity Sponsors in the Delaware Court of Chancery. The complaint purports to be a class action filed on behalf of our stockholders and alleges that our directors breached their fiduciary duties to our stockholders by, among other things, failing to maximize stockholder value in connection with the merger. The complaint further alleges that the Equity Sponsors aided and abetted the actions of our directors in breaching their fiduciary duties to our stockholders. The complaint seeks, among other things, an injunction against the consummation of the merger, an unspecified amount of damages and the payment of plaintiff s fees and costs. We and the Equity Sponsors believe that the complaint is without merit and intend to defend the lawsuit vigorously.

THE MERGER AGREEMENT
(PROPOSAL NO. 1)

The summary of the material terms of the merger agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex A and which is incorporated by reference into this document. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety, as the rights and obligations of the parties are governed by the express terms of the merger agreement and not by this summary or any other information contained in this proxy statement.

The merger agreement contains representations and warranties made by, and to, us and Buyer Parties. These representations and warranties, which are set forth in the merger agreement, were made by the parties for the purposes of negotiating and entering into the merger agreement. These representations and warranties were made as of specified dates, may be subject to standards of materiality different from what may be viewed as material to stockholders, or may have been used for the purpose of allocating risk among the parties instead of establishing such matters as facts. The following summary is not intended to provide you with any other factual information about us or our business. Such information can be found elsewhere in this proxy statement and in our public filings with the SEC, as described in Where You Can Find More Information, beginning on page 98.

The Merger

In accordance with the merger agreement, at the effective time of the merger, Merger Sub will be merged with and into us. As a result of the merger, the separate corporate existence of Merger Sub will cease, and we will continue as the surviving corporation and as a wholly-owned subsidiary of Holdings. Upon consummation of the merger, the certificate of incorporation and bylaws of Merger Sub will be the certificate of incorporation and bylaws of the surviving corporation and the directors and officers of Merger Sub will be the initial directors and officers of the surviving corporation, each to hold office in accordance with the bylaws of the surviving corporation.

Effective Time of the Merger; Marketing Period

The merger will be effective at the time we, Holdings and Merger Sub file the certificate of merger with the Secretary of State of the State of Delaware (or at a later time, if agreed upon by the parties and specified in the certificate of merger). We expect to complete the merger as promptly as practicable after the satisfaction or waiver of, but in no event later than the second business day after all of the conditions described under *Conditions to the Merger,* beginning on page 82 have been satisfied; however, Buyer Parties will not be required to effect the closing until the earlier to occur of a date during the marketing period specified by Buyer on not less than two business days notice to us and the final day of the marketing period.

For purposes of the merger agreement, marketing period means the first period of 30 consecutive days (which may be extended as described below) throughout which, and at the end of which:

- Buyer has certain financial information required to be provided by us under the merger agreement, including:

- our consolidated financial statements for the year ended December 31, 2006 (or the first quarter of 2007 in the event the marketing period is extended as described below);

- pro forma financial statements with respect to our consolidated financial statements for the year ended December 31, 2006 (or the first quarter of 2007 in the event the marketing period is extended as described below); and

- any other financial information relating to us or our consolidated subsidiaries reasonably requested by the underwriters of the high-yield debt offering contemplated in the debt commitment letters and customarily included in such an offering;

- the mutual closing conditions are satisfied;

- nothing has occurred and no condition exists that would cause any of the conditions to the obligations of Buyer Parties to complete the merger to fail to be satisfied (assuming the closing were to be scheduled at any time during the 30-day period), other than:

- our delivery of our officer s certificate; and

- our obligation to (i) satisfy and discharge our outstanding 7 5/8% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger; and

- our consolidated financial statements for the year ended December 31, 2006 (or the first quarter of 2007 in the event the marketing period is extended as described below) and the financial statements contained in all of the reports we have filed with the SEC since June 16, 2004, include an unqualified audit opinion from our auditors that has not been withdrawn.

The marketing period will commence no earlier than March 30, 2007. In certain instances where the financial statements that are required to be provided to Buyer under the merger agreement have become outdated, upon the reasonable request of the underwriters of the high-yield debt financing, we will be required to submit our first quarter 2007 financial statements to Buyer and the marketing period will be extended for an additional period of time (which will not exceed 30 consecutive days); provided, that all of the closing conditions continue to be satisfied during any such extension of the marketing period. The start of the marketing period will not be delayed, and any marketing period will not be extended, as a result of any matters associated with IAAI, including with respect to IAAI s financial statements.

The purpose of the marketing period is to provide Buyer with a reasonable and appropriate period of time during which it can market and place the high-yield debt financing contemplated by the debt commitment letters provided in connection with the financing of the merger.

Payment for the Shares

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger will automatically be canceled and cease to exist and will be converted into the right to receive $27.85 in cash, without interest and less any applicable withholding taxes, other than shares owned by us or Buyer Parties and any direct or indirect wholly-owned subsidiary of us or Buyer Parties (which will be canceled without any consideration), and other than shares of common stock held by stockholders who have properly demanded and perfected their appraisal rights in accordance with the DGCL, which stockholders shall be entitled to the fair value of their shares as described above in *The Merger Appraisal Rights,* beginning on page 64.

Stock Options

Under the merger agreement, each outstanding option to purchase our common stock under our 2004 Equity Plan that is unexercised as of the effective time of the merger will be accelerated and become fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the outstanding options multiplied by the amount (if any) by which $27.85 exceeds the option exercise price, without interest and less any applicable withholding taxes. This cash payment will be made by the surviving corporation within two business days following the effective time of the merger.

Restricted Stock Units

Under the merger agreement, each restricted stock unit that is outstanding as of the effective time of the merger will be accelerated and become fully vested, if not previously vested, and then cancelled and converted into the right to receive a cash payment equal to the number of outstanding restricted stock units multiplied by $27.85, without interest and less any applicable withholding taxes. This cash payment will be made by the surviving corporation within two business days following the effective time of the merger.

Employee Stock Purchase Plan

Upon execution of the merger agreement on December 22, 2006, we suspended all new purchase periods after December 31, 2006 under the ESPP. Under the merger agreement, each outstanding right to purchase our common stock under the ESPP existing immediately prior to the effective time of the merger will be cancelled and converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the outstanding purchase right multiplied by the amount (if any) by which $27.85 exceeds the purchase price applicable to the purchase right, without interest and less any applicable withholding taxes. This cash payment will be made by the surviving corporation within two business days following the effective time of the merger. In addition, the surviving corporation will return to ESPP participants their respective accumulated payroll contributions and optional cash payments that were not applied to stock purchases under the ESPP (if any), within two business days following the effective time of the merger.

Director Compensation Deferral Plan and Supplemental Executive Retirement Plan

The Director Deferral Plan and SERP will terminate as of the effective time of the merger and all accrued account balances under the respective plans will be distributed in cash to the plan participants promptly after the effective time of the merger, less any required withholding taxes.

Procedures for Payment

Prior to the effective time of the merger, Buyer will appoint Bank of New York, or another mutually acceptable bank or trust company, as paying agent. Immediately following the effective time of the merger, Buyer will, or will cause the surviving corporation to, deposit with the paying agent cash in an amount sufficient to pay the aggregate merger consideration required to be paid to our stockholders pursuant to the terms and conditions of the merger agreement.

We will close our stock ledger following the effective time of the merger, and after such time, there will be no further transfers of our common stock.

Within two business days following the effective time of the merger, the paying agent will mail to you a letter of transmittal and instructions explaining how to surrender your stock certificates in exchange for the merger consideration.

The paying agent will pay you your merger consideration within three business days after you have:

- surrendered your stock certificates to the paying agent; and
- provided to the paying agent your signed letter of transmittal and any other items specified by the letter of transmittal.

The merger consideration you receive will not include interest and will be reduced by the amount of any applicable withholding taxes.

YOU SHOULD NOT FORWARD YOUR STOCK CERTIFICATES TO THE PAYING AGENT WITHOUT A LETTER OF TRANSMITTAL, AND YOU SHOULD NOT RETURN YOUR STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD.

The transmittal instructions provided by the paying agent will tell you what to do if you have lost your stock certificate, or if it has been stolen or destroyed. In summary, you will be required to submit an affidavit identifying such certificate as lost, stolen or destroyed and provide an indemnity or deliver a bond reasonably acceptable to the surviving corporation to indemnify it against any claim that may be made against it with respect to such stock certificate.

Any portion of the merger consideration deposited with the paying agent that remains undistributed to our stockholders for one year after the effective time of the merger will be delivered, upon demand, to the surviving corporation. Stockholders who have not surrendered their stock certificates prior to the delivery of such funds to the surviving corporation may only look to the surviving corporation for the payment of the merger consideration to which such stockholder is entitled.

In the event of a transfer of ownership of our common stock that is not registered in our transfer records, the merger consideration for such transferred stock may be paid to a person other than the registered holder of the surrendered stock certificate if (i) the stock certificate is properly endorsed or is otherwise in proper form for transfer, (ii) the person requesting payment establishes, to the satisfaction to the paying agent, the validity of the transfer, and (iii) the person requesting payment pays any transfer or other taxes required as a result of the payment of the merger consideration to a person other than the registered holder of the stock certificate (or establishes to the satisfaction of the surviving corporation that such tax has been paid or is not applicable).

Representations and Warranties

We have made various representations and warranties in the merger agreement that are subject, in some cases, to specified exceptions and qualifications. Our representations and warranties relate to, among other things:

- our and our material subsidiaries organization, good standing and qualification to do business;
- the ownership of our subsidiaries;
- our capitalization, including in particular the number of shares of our common stock, stock options and other equity-based interests;
- our corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;
- the absence of violations of or conflicts with our and our material subsidiaries governing documents, applicable law or certain agreements as a result of our entry into the merger agreement and the consummation of the transactions contemplated by the merger agreement;
- required regulatory filings and consents and approvals of governmental authorities relating to the merger;
- the absence of certain litigation;
- except for fees payable to UBS, Credit Suisse and the Bank of Montreal, the absence of any fees to any broker, finder, investment banker, financial advisor or agent in connection with the merger agreement;
- the accuracy of our filings with the SEC since June 16, 2004, including the financial statements contained therein;

- the absence of certain undisclosed liabilities;
- our compliance in all material respects with the provisions of the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations of the New York Stock Exchange;
- the absence of a company material adverse effect (described below) and certain other changes or events related to us since December 31, 2005;
- tax matters related to us and our subsidiaries;
- certain employment matters affecting us or our subsidiaries, including matters relating to our and our subsidiaries employee benefit plans;
- our and our subsidiaries material contracts;
- our top ten customers in our whole car auction, salvage auction and Automotive Finance Corporation businesses;
- compliance with applicable laws and possession of material permits and authorizations by us and our subsidiaries;
- owned and leased real property;
- our and our material subsidiaries intellectual property;
- our and our material subsidiaries environmental matters;
- labor matters;
- our receipt of a fairness opinion from Credit Suisse;
- the inapplicability of Section 203 of the DGCL;
- our and our subsidiaries insurance policies;
- certain interested party transactions;
- the absence of any material tax liability as a result of the merger or the transactions contemplated by the merger agreement by reason of our separation from ALLETE, Inc.; and
- the accuracy of the information contained in this proxy statement and, with respect to this proxy statement, compliance as to form with applicable securities laws.

Buyer Parties made a number of representations and warranties to us in the merger agreement relating to, among other things:

- their organization, good standing and qualification to do business;
- the ownership of Holdings and Merger Sub;
- their corporate (or limited liability company) power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

- the absence of violations of or conflicts with their governing documents, applicable law or certain agreements as a result of their entry into the merger agreement;

- required regulatory filings and consents and approvals of governmental authorities relating to the merger;

- the absence of certain litigation;

- the absence of changes or events that would prevent or materially delay the merger;

- the validity of the financing commitment letters and the sufficiency of funds to be provided thereunder;
- the capitalization of Buyer;
- the purposes for which Buyer Parties were formed and the absence of any conduct of business by any of Buyer Parties prior to the date of the merger agreement,
- the absence of any fees to any broker, finder or agent in connection with the merger agreement;
- the accuracy of the information supplied by the Equity Sponsors for inclusion in this proxy statement;
- the absence of certain contracts or agreements with our officers, directors, stockholders or any other person in connection with the merger; and
- with respect to each of Buyer Parties, IAAI and the Equity Sponsors, the absence of any direct or indirect beneficial ownership, or sole or shared voting power, with respect to any shares of our common stock.

Several of our representations and warranties are qualified by reference to whether the failure of such representation or warranty to be true is reasonably likely to have a material adverse effect on us. For the purposes of the merger agreement, company material adverse effect means any effect, change, condition, occurrence, development, event, or series of events or circumstances that, individually or in the aggregate with other effects, changes, conditions, occurrences, developments, events or circumstances, has or have a material adverse effect on, or a material adverse change in either:

- our ability to perform our obligations under the merger agreement or to consummate the merger or the transactions contemplated thereby; or
- the condition (financial or otherwise), properties, business or results of operation of us and our subsidiaries, taken as a whole; other than any effect, change, condition, occurrence, development, event or series of events or circumstances arising out of or resulting from:
- any decrease in the market price or trading volume of our common stock or any effect resulting from such change (but not the underlying causes of such decreases);
- any action taken by us at the written request of Buyer Parties, Equity Sponsors or the lenders providing the debt financing;
- any change, occurrence, development, event, or series of events or circumstances principally resulting from the execution of the merger agreement or consummation of the transactions contemplated by the merger agreement or public announcement of the execution of the merger agreement or the transactions contemplated by the merger agreement (including the loss of employees, negative developments in our relationships with customers and other business partners, or stockholder litigation in connection with the merger); provided that this exception shall not apply with respect to our non-contravention or governmental approvals representation described above;
- any change in law or GAAP or the interpretation or enforcement thereof; provided, that such change does not disproportionately affect us and our subsidiaries, taken as a whole, relative to other participants in the industry or geographic market in which we and our subsidiaries conduct our respective businesses;
- any change, occurrence, development, event, or series of events or circumstances affecting the general economic or business conditions in the U.S. or any other country where we and our subsidiaries do business; provided, that such

change, occurrence, development, event, or series

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of events or circumstances do not disproportionately affect us and our subsidiaries, taken as a whole, relative to other participants in the industry or geographic market in which we and our subsidiaries conduct our respective businesses;

- any change, occurrence, development, event, or series of events or circumstances affecting companies operating in the industries or markets in which we and our subsidiaries do business; provided, that such change, occurrence, development, event, or series of events or circumstances do not disproportionately affect us and our subsidiaries, taken as a whole, relative to other participants in the industry or geographic market in which we and our subsidiaries conduct our respective businesses; or

- any change, occurrence, development, event, or series of events or circumstances affecting national or international political conditions, including engagement by the U.S. in hostilities or the occurrence of a military or terrorist attack upon the U.S.; provided, that such change, occurrence, development, event, or series of events or circumstances do not disproportionately affect us and our subsidiaries, taken as a whole, relative to other participants in the industry or geographic market in which we and our subsidiaries conduct our respective businesses.

Several of Buyer Parties representations and warranties are similarly qualified and for the purposes of the merger agreement, buyer material adverse effect means any effect, change, condition, occurrence, development, event, or series of events or circumstances that, individually or in the aggregate, would prevent or materially impede, interfere, hinder or delay Buyer Parties from consummating the merger or any of the transactions contemplated by the merger agreement, including materially adversely delay the financing for the merger.

The representations and warranties of each of the parties to the merger agreement will expire upon the effective time of the merger.

Conduct of the Business Pending the Merger

We have agreed in the merger agreement that, prior to the effective time of the merger, except as contemplated by the merger agreement or consented to in writing by Buyer (which consent shall not be unreasonably withheld, conditioned or delayed) we will:

- conduct, and cause our subsidiaries to conduct, business in the ordinary course, consistent with past practice; and

- use our reasonable best efforts to preserve substantially intact our and our subsidiaries business organization, preserve in all material respects our and our subsidiaries assets and properties in good repair and condition, keep available the services of our and our subsidiaries current officers and key employees and preserve our and our subsidiaries current relationships with customers, suppliers and other persons with which we or any of our subsidiaries have significant business relations.

We have also agreed that, prior to the effective time of the merger, except as contemplated by the merger agreement or consented to in writing by Buyer (which consent shall not be unreasonably withheld, conditioned or delayed) we will not:

- amend our certificate of incorporation or bylaws, or the organizational documents of our subsidiaries;

- split, combine or reclassify shares of our or our subsidiaries capital stock; declare, set aside or pay any dividend or make any other distribution in respect of our or our subsidiaries capital stock; or directly or indirectly redeem, purchase or otherwise acquire shares of our capital stock;

- authorize for issuance, issue, sell, pledge, dispose of, encumber, deliver (or agree or commit to do any of the foregoing) any shares of any class of our or our subsidiaries capital stock, other than:

- issuance of common stock upon the exercise of outstanding stock options or the vesting of outstanding restricted stock units;

- the grant of stock options, restricted stock units or other similar equity rights, not to exceed an aggregate of 115,000 shares of common stock; or

- issuances of common stock and grants of purchase rights during the purchase period that ended on December 31, 2006 pursuant to the ESPP and in accordance with the merger agreement.

- dispose of, transfer, lease, license, mortgage, pledge or encumber any material fixed or other asset other than in the ordinary course of business consistent with past practice or pursuant to existing contracts;

- incur or assume (i) any indebtedness that is (A) not prepayable without penalty, or (B) in excess of $5 million in the aggregate; or (ii) any other liability or obligation or issue any debt securities in excess of $10 million in the aggregate, except in each case:

- for indebtedness of one of our subsidiaries that is incurred or assumed by us or another one of our subsidiaries;

- draws under our credit facilities not to exceed $30 million in the aggregate; or

- increased third party financing in connection with the operation of the Automotive Finance Corporation business not to exceed $600 million in the aggregate.

- make (i) loans, advances or capital contributions to any person in excess of $2 million in the aggregate (other than with respect to existing obligations to our subsidiaries or in connection with the operation of the Automotive Finance Corporation business); or (ii) loans or advances to any of our or our subsidiaries executive officers;

- take any material action with respect to accounting policies or procedures, except as required by the SEC, or by changes in law or GAAP;

- waive, release, assign, settle or compromise any governmental complaint or litigation, other than litigation settlements that (i) are covered by our insurance policies and payment of which will not result in any material increase in premiums due thereunder, and (ii) are less than $2 million in the aggregate;

- except as required by law, make or rescind any material tax election, change any material tax method, file any amended tax return that is material, or settle or compromise any material tax liability;

- fail to maintain insurance consistent with the past practice for our and our subsidiaries business, taken as a whole;

- except in the ordinary course of business consistent with past practice, dispose of, grant or permit to lapse any material intellectual property rights owned by us or any of our subsidiaries; obtain any intellectual property for a purchase price in excess of $2 million in the aggregate; or dispose of or disclose without a nondisclosure agreement to any person any material trade secret owned or used by us or any of our subsidiaries;

- adopt or enter into a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization;

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- write-up, write-down or write-off the book value of any of our or our subsidiaries assets, other than in the ordinary course of business consistent with past practice or as may be required by GAAP;

- materially amend, modify, cancel or terminate or waive, release or assign any material rights or claims with respect to any material contract, or enter into any material contract, other than in the ordinary course of business consistent with past practice or in connection with the increased third party financing required for the Automotive Finance Corporation business (not to exceed $600 million in the aggregate);

- directly or indirectly acquire (by merger, consolidation, acquisition of equity interests or assets, or any other business combination) any person, property or assets (i) in excess of $1 million individually or $5 million in the aggregate, or (ii) that could reasonably be expected to materially delay the consummation of the merger; or

- authorize or make any capital expenditure exceeding $1 million in any single transaction or $5 million in the aggregate.

We have also agreed that, prior to the effective time of the merger, except (i) as expressly required by the merger agreement, (ii) as set forth in our disclosure schedule, (iii) as required by law, (iv) pursuant to existing contractual arrangements, or (v) as consented to in writing by Buyer (which consent shall not be unreasonably withheld, conditioned or delayed) we will not:

- materially increase the benefits under our employee plans;

- grant, or become obligated to grant any increase in the compensation, severance or fringe benefits of existing directors or employees (other than normal increases and non-stock benefit changes for non-officer employees in the ordinary course of business consistent with past practice);

- make any material change in, or enter into any employment or similar contract with any director, employee or officer (other than employment contracts with new non-officer employees in the ordinary course of business consistent with past practice; provided that such contracts do not grant any severance, change of control or termination pay); or

- enter into or renew any contract with any director, employee, officer, consultant or independent contractor that provides for payment of compensation or benefits that is contingent upon the occurrence of any of the transactions contemplated by the merger agreement.

Conduct of Buyer Parties Pending the Merger

Under the merger agreement, Buyer Parties have agreed that, until the earlier of the termination of the merger agreement or the effective time of the merger, except as required by the merger agreement or consented to in writing by us (which consent shall not be unreasonably withheld, conditioned or delayed) they will not engage in any action or enter into any transaction (or permit any action to be taken or transaction to be entered into) that would have a buyer material adverse effect. This restriction includes the requirement that none of Buyer Parties, the subsidiaries of Buyer, the Equity Sponsors or IAAI directly or indirectly acquire or agree to acquire any material assets or equity of any other person unless such acquisition or agreement would not reasonably be expected to (i) materially increase the risk that any governmental consent or approval required to consummate the merger or the transactions contemplated by the merger agreement will not be obtained (including the expiration of any applicable waiting period), or (ii) materially increase the risk that any governmental authority will enter an order prohibiting the consummation of the merger or the transactions contemplated by the merger agreement, or materially increase the risk of not being able to remove any such order on appeal or otherwise.

No Solicitation of Transactions

Subject to the exception set forth below, we have agreed that during the term of the merger agreement, we will not (and will cause each of our subsidiaries not to), and will not authorize or permit any of our representatives to, directly or indirectly:

- initiate, solicit, knowingly encourage (including by way of furnishing non-public information) or take any action to facilitate any inquiries or the making of any proposal relating to, or that could reasonably be expected to lead to, an alternative transaction (described below);

- enter into any discussions or negotiate with (or provide non-public information to or otherwise afford access to our or our subsidiaries properties, books or records) any third party in connection with any proposal relating to an alternative transaction;

- agree to enter into any letter of intent or similar agreement in principle or other contract with respect to, or approve or recommend or otherwise endorse or support, any proposal relating to an alternative transaction; or

- grant any waiver or release to any person under any standstill or similar agreement to which we are a party.

For purposes of the merger agreement, alternative transaction means any of the following:

- a transaction or series of transactions pursuant to which any third party acquires, or seeks to acquire, directly or indirectly, beneficial ownership of more than 25% of the outstanding shares of our common stock or any of our other securities or any securities of our material subsidiaries, or assets representing more than 25% of our or our subsidiaries assets on a consolidated basis;

- a merger or other business combination in which a third party acquires more than 25% of our or any of our material subsidiaries outstanding equity securities or voting power, or immediately after which our stockholders prior to such transaction cease to own, directly or indirectly, more than 75% of the equity securities or voting stock of the entity surviving such merger or other business combination;

- a consolidation, recapitalization, share exchange or similar extraordinary transaction involving us or any of our material subsidiaries (other than the recapitalization of any of our material subsidiaries or a merger, consolidation, share exchange or amalgamation involving any of our material subsidiaries with us or any of our other subsidiaries); or

- a transaction or series of transactions which is similar in form, substance or purposes to any of the foregoing transactions, or any combination of the foregoing.

Upon execution of the merger agreement, we ceased all negotiations or communications that could reasonably be expected to lead to a proposal relating to an alternative transaction. We also agreed to promptly notify Buyer orally and in writing of the material terms (including the identity of the third party) of any proposals received by us or any of our subsidiaries relating to any alternative transaction, any material changes relating thereto or any other requests for information, discussions or negotiations relating thereto.

Recommendation Withdrawal; Termination in Connection with a Superior Proposal

Prior to obtaining stockholder approval, we may furnish information to, enter into a confidentiality agreement with, or enter into discussions or negotiations with, any third party in connection with an unsolicited written bona fide proposal relating to an alternative transaction, if, and only if prior to taking such action:

- our board determines that such proposal constitutes or could reasonably be expected to lead to a superior proposal (described below);
- our board, after consultation with our outside legal counsel, determines in good faith that such action is necessary for our board to comply with its fiduciary duties to our stockholders;
- the receipt of such proposal did not result from a breach of any of our obligations described under *No Solicitation of Transactions,* beginning on page 77; and
- prior to furnishing information to, or entering into discussions or negotiations with, any third party, we provide written notice to Buyer of our actions; provide Buyer any non-public information concerning us or any of our subsidiaries that is provided to the third party and was not previously provided to Buyer Parties; and execute a confidentiality agreement with the third party on terms that are comparable and no less restrictive than the confidentiality agreement between us and Kelso.

Nothing in the merger agreement (i) prohibits us, our board or any of our representatives from communicating with or making disclosures to our stockholders to the extent that our board determines in good faith, after consultation with outside legal counsel, that such actions are required by applicable law; or (ii) prohibits or restricts our board from amending, modifying or withdrawing its recommendation of the merger to our stockholders to the extent that our board determines in good faith, after consultation with outside legal counsel, that it is required to do so in order to comply with its fiduciary duties to our stockholders.

Prior to obtaining stockholder approval, if our board determines in good faith, after consultation with our outside legal counsel and financial advisors, that a superior proposal has been made, our board may:

- approve or recommend the superior proposal;
- cause us to enter into a definitive agreement with respect to the superior proposal; and
- terminate the merger agreement to enter into the superior proposal and pay Buyer a $40 million termination fee;

provided, however, that prior to taking any of the actions described above, we must (i) provide Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (ii) cooperate and negotiate with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (iii) consider any revised proposal made by Buyer before determining, in good faith, after consultation with our outside legal counsel and financial advisor, that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal.

For purposes of the merger agreement, superior proposal means a bona fide written proposal made by a third party relating to any of the following, which our board determines in good faith, after consultation with our outside legal counsel and financial advisors, is likely to be more favorable to our

stockholders, from a financial point of view, than the transactions contemplated by the merger agreement (taking into account any proposals by Buyer to amend the terms of the merger agreement in response to the superior proposal):

- a transaction or series of transactions pursuant to which any third party acquires, or seeks to acquire, directly or indirectly, beneficial ownership of more than 50% of the outstanding shares of our common stock or any of our other securities or any securities of our material subsidiaries, or assets representing more than 50% of our or our subsidiaries assets on a consolidated basis;

- a merger or other business combination in which a third party acquires more than 50% of our or any of our material subsidiaries outstanding equity securities or voting power, or immediately after which our stockholders prior to such transaction cease to own, directly or indirectly, more than 50% of the equity securities or voting stock of the entity surviving such merger or other business combination; or

- a transaction or series of transactions which is similar in form, substance or purposes to any of the foregoing transactions, or any combination of the foregoing.

Financing

Under the merger agreement, Buyer Parties agree to use their reasonable best efforts to (i) arrange the financing on the terms and conditions described in the debt and equity commitment letters; (ii) enter into definitive agreements with respect to the financing; (iii) satisfy all conditions applicable to Buyer Parties in such definitive agreements that are within their control; (iv) consummate the financing no later than the earlier of the last day of the marketing period and the final date. In the event that any portion of the financing becomes unavailable on the terms and conditions contemplated in the debt and equity commitment letters, Buyer shall use its reasonable best efforts to obtain alternative financing from alternative sources on comparable or more favorable terms in the aggregate to Buyer than as contemplated by the debt and equity commitment letters (as determined by Buyer in its reasonable good faith judgment), as promptly as practicable, but no later than the earlier of the last day of the marketing period and the final date. Buyer will promptly provide us with the documentation evidencing the alternative sources of financing and will provide us with prompt notice of any material breach of any party to a commitment letter or any termination of a commitment letter. Buyer also will keep us reasonably informed of the status of its efforts to arrange for the financing, including information about the equity rollover and refinancing of IAAI as we may reasonably request, and will first consult with us before permitting any material amendment or modification to be made to, or any waiver of any material provision or remedy under, any of the commitment letters. Buyer will not, without our prior consent (which shall not be unreasonably withheld, conditioned or delayed), directly or indirectly take any action that (i) would or would be reasonably expected to result in the financing not being available at or prior to the earlier of the last day of the marketing period and the final date, or (ii) would have a buyer material adverse effect.

For purposes of the merger agreement, the final date is June 21, 2007, however, if the marketing period has commenced but not ended on or prior to June 21, 2007, the final date will be the earlier of (i) the end of the marketing period, and (ii) July 20, 2007. If the marketing period has commenced but not ended on or prior to July 20, 2007, but could end on or prior to July 30, 2007, we may, in our sole discretion, extend the final date to no later than July 30, 2007.

We will (and will cause our subsidiaries and representatives to) provide Buyer with all reasonable cooperation in connection with the arrangement of the financing as may be reasonably required by Buyer (so long as such cooperation does not unreasonably interfere with our ongoing operations or cause us or any of our subsidiaries to pay any fee or incur any liability in connection with the financing prior to the effective time of the merger), which shall include:

- participation in meetings, presentations, roads shows, drafting sessions, due diligence sessions and sessions with rating agencies;
- assistance in the preparation of customary disclosure materials;
- provision of our audit reports, comfort letters, and customary assistance of our independent auditors;
- execution of definitive financing documents, including pledge and security documents, subsidiary guarantees or certificates, legal opinions or other documents reasonably requested by Buyer and required in connection with the financing or to facilitate the pledge of collateral (except that none of our or our subsidiaries obligations under the foregoing documents shall be effective until the effective time of the merger);
- access to our personnel and information;
- obtaining surveys and title insurance;
- furnishing Buyer with customary financial information necessary to obtain the financing;
- (i) permitting the lenders providing the debt financing to evaluate our current assets, cash management and accounting systems for the purpose of establishing collateral arrangements, and (ii) establishing bank accounts (except that no right of any lender and none of our or our subsidiaries obligations with respect to the foregoing shall be effective until the effective time of the merger);
- entering into one or more credit or other agreements required in connection with the financing immediately prior to the effective time (except that we will not be required to enter into any purchase agreement for any high-yield debt financing and none of our or our subsidiaries obligations under the foregoing agreements shall be effective until the effective time of the merger); and
- taking all corporate actions, subject to the occurrence of the effective time, reasonably requested by Buyer and consistent with customary practice to permit the consummation of the financing.

Indemnification of Directors and Officers

From and after the effective time of the merger, Buyer Parties and the surviving corporation will indemnify and hold harmless each person who is, as of the date of the merger agreement or during the period from the execution of the merger agreement through the effective time of the merger, a director, officer, trustee, employee, agent or fiduciary of us or any of our subsidiaries, to the fullest extent permitted by law, in connection with any threatened, asserted, pending or completed action, claim, suit, arbitration, mediation, inquiry or investigation (and any judgments, fines, penalties and amounts paid in settlementthereof) arising out of or pertaining to (i) such person s duties or service as a director, officer, trustee, employee, agent or fiduciary of us or any of our subsidiaries, or (ii) acts or omissions occurring at or before the effective time of the merger (including acts or omissions occurring in connection with the approval of the merger agreement and the consummation of the transactions contemplated thereby). Buyer Parties and the surviving corporation will also pay or advance all reasonable attorneys fees and other costs,

expenses or obligations paid or incurred in connection with the investigation, preparation, defense or participation in any claim (subject to certain limitations on attorneys fees for more than one counsel).

Under the merger agreement, Buyer Parties agree that all indemnification and exculpation obligations contained in our or our subsidiaries charters, bylaws or indemnification agreements in existence on the date of the merger agreement will be assumed by the surviving corporation at the effective time of the merger and will survive the merger.

For a period of six years after the effective time of the merger Buyer shall cause the surviving corporation to maintain in effect the current policies of directors and officers liability insurance maintained by us for the benefit of those persons who are covered by such policies as of the date of the merger agreement or the effective time of the merger, except that the surviving corporation may first use its reasonable best efforts to substitute tail policies on substantially the same terms and conditions for the six year period. In no event will the surviving corporation be required to expend more than an amount per year of coverage equal to 250% of the current annual premiums paid by us for such insurance (or a one time cost of 300% of such annual premiums in the case of a tail policy). Buyer Parties will, and will cause the surviving corporation or its successors or assigns to, honor the obligations of the surviving corporation with respect to indemnification and maintain such policies of directors and officers liability insurance as provided by the merger agreement.

Employee Benefit Matters

Our U.S. employees will remain at will employees and may be terminated at any time, with or without cause. From and after the effective time of the merger until December 31, 2007, Buyer or the surviving corporation shall establish and maintain employee benefit plans (excluding any equity-based benefits, individual employment or change in control agreements, our Director Compensation Deferral Plan and SERP) that, in the aggregate, are no less favorable than those provided by the Company and its subsidiaries to its U.S. employees as of the effective time of the merger.

From and after the effective time of the merger until December 31, 2007, Buyer or the surviving corporation shall offer employment on the same terms and conditions (including any benefit plans) provided by the Company and its subsidiaries to its employees in Mexico and Canada as of the effective time of the merger.

Repayment of Existing Indebtedness

At the effective time of the merger, Buyer will deposit or cause to be deposited with the trustee under our notes indenture, sufficient funds for the satisfaction and discharge of our outstanding 7 5/8% senior subordinated notes. Under the merger agreement, we agreed to take any actions reasonably requested by Buyer to facilitate the satisfaction and discharge of our outstanding 7 5/8% senior subordinated notes in compliance with our note indenture. In addition, we agreed to repay (with funds provided by Buyer at the effective time of the merger), in full all amounts owing under our existing credit facility with Bank of America and terminate the commitments and agreements evidencing such credit facility and our outstanding hedge agreements.

Other Pre-Closing Covenants

The merger agreement includes certain other customary agreements among the parties, including the requirement that we:

- provide Buyer with access to our financial information and records and appropriate personnel and business partners; and

- obtain and deliver to Buyer, at or prior to the closing, the consents, waivers, approvals and notices required under each of our material contracts.

Conditions to the Merger

The obligations of the parties to complete the merger are subject to the satisfaction or waiver of the following mutual conditions:

- *No Injunctions or Restraints; Illegality.* There is not in effect any temporary restraining order, injunction, or other legal restraint or prohibition that prevents the merger, or any statute, rule, regulation or order that makes the consummation of the merger illegal;

- *Governmental Consents.* The waiting period (and any extension thereof) under the HSR Act and any other foreign antitrust law and all material filings, consents, approvals and authorizations legally required to be made with or obtained from any governmental body to consummate the merger shall have expired, been terminated, made or obtained, as applicable; and

- *Proxy Statement; Stockholder Approval.* The SEC shall have declared the proxy statement effective and our stockholders shall have approved the merger agreement and the merger.

The obligations of Buyer Parties to complete the merger are subject to the satisfaction or waiver of the following additional conditions:

- *Representations and Warranties.*

- Our representations and warranties not made as of a specific date must be true and correct (disregarding all materiality, material adverse effect or company material adverse effect qualifications) both as of the date of the merge agreement and as of the effective time of the merger, and our representations and warranties made as of a specific date must be true and correct as of such date, in each case except where the failure of such representations and warranties to be true and correct (disregarding all materiality, material adverse effect or company material adverse effect qualifications) would not reasonably be expected to have, individually or in the aggregate, a company material adverse effect.

- Our representations and warranties relating to us not suffering a company material adverse effect since December 31, 2005 and the absence of any notices regarding the spin-off from ALLETE, Inc. not being tax-free must be true and correct in all respects both as of the date of the merger agreement and as of the effective time of the merger.

- Our representations and warranties with respect to capitalization, due authorization and brokers fees must be true and correct in all material respects both as of the date of the merger agreement and as of the effective time of the merger (except for representations and warranties made as of a specific date, which shall be true and correct in all material respects as of such date). With respect to the capitalization representation, such representation shall be deemed to be not true and correct in all material respects if there are inaccuracies or deviations in our capitalization representation relating to a positive difference of more than 100,000 shares of our common stock (excluding actions expressly permitted under the merger agreement).

- *Agreements and Covenants.* We must have performed or complied (i) in all material respects with all agreements and covenants required to be performed by us prior to the effective time of the merger, and (ii) in all respects with the requirement that we provide Buyer with any notice (written or oral) that we receive from any taxing authority or from ALLETE, Inc. regarding the appropriateness of the tax-free treatment of the separation of us from our former parent, ALLETE, Inc.

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- *Dissenting Shares.* The total number of shares held by stockholders who have demanded and validly perfected appraisal rights for such shares under the DGCL shall not exceed 20% of the issued and outstanding shares of common stock as of the effective time of the merger.

Our obligations to complete the merger are subject to the satisfaction or waiver of the following additional conditions:

- *Representations and Warranties.* Buyer Parties representations and warranties not made as of a specific date must be true and correct (disregarding all materiality, material adverse effect or buyer material adverse effect qualifications) both as of the date of the merger agreement and as of the effective time of the merger, and Buyer Parties representations and warranties made as of a specific date must be true and correct as of such date, in each case except where the failure of such representations and warranties to be true and correct (disregarding all materiality, material adverse effect or buyer material adverse effect qualifications) would not reasonably be expected to have, individually or in the aggregate a buyer material adverse effect.

- *Agreements and Covenants.* Buyer Parties shall have performed or complied in all material respects with all agreements and covenants required to be performed by each of them prior to the effective time of the merger.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the effective time of the merger under the following circumstances:

- by mutual written consent of Buyer and us;

- by either Buyer or us if:

- the merger is not consummated on or prior to the final date;

- any court of competent jurisdiction or governmental, regulatory or administrative agency or commission has issued a non-appealable final order, decree or ruling that effectively permanently restrains, enjoins or otherwise prohibits the merger (except that neither party may terminate the merger agreement for this reason if that party has not (i) complied with its obligations under the merger agreement to use reasonable best efforts to obtain necessary consents or take actions necessary to consummate the merger, and (ii) used its reasonable best efforts to challenge such order, decree, ruling or other action); or

- at the special meeting (including any adjournment or postponement thereof), our stockholders do not approve the merger (except we may not terminate the merger agreement based on this reason if the failure to obtain such approval is caused by or related to our material breach of the merger agreement);

- by Buyer if:

- our board amends, modifies or withdraws its recommendation in favor of the merger, as further described in *Recommendation Withdrawal; Termination in Connection with a Superior Proposal,* beginning on page 78;

- our board adopts a formal resolution approving or recommends to our stockholders an alternative transaction or publicly announces that it has received a superior proposal;

- prior to the date of the special meeting, we provide Buyer with notice of our intention to terminate the merger agreement based upon our board of directors good faith determination that it has received a superior proposal;

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- we fail to include our board s recommendation of the merger in this proxy statement;

- our board fails to recommend against a third party tender or exchange offer relating to our common stock that, if consummated, would constitute an alternative transaction within ten business days of the commencement of such tender or exchange offer; or

- our board publicly announces that it has received a proposal (other than a tender offer or exchange offer described above) relating to an alternative transaction and has determined that such proposal constitutes or could reasonably be expected to lead to a superior proposal and, within ten business days of such public announcement (or a longer period of time, if deemed necessary by our board, to comply with its fiduciary duties, but no later than five business days prior to the date the stockholder vote is held at the special meeting), our board has not made a further public announcement stating that it both recommends against the third party proposal (or indicated that such proposal has been withdrawn and negotiations terminated) and reconfirms its recommendation of the merger;

- we materially and intentionally breach any of our obligations under the merger agreement to:

- not (and cause each of our subsidiaries not to) and not authorize or permit any of our or our subsidiaries representatives to, directly or indirectly:

- initiate, solicit, knowingly encourage (including by way of furnishing non-public information) or take any action to facilitate any inquiries or the making of any proposal relating to, or that could reasonably be expected to lead to, an alternative transaction;

- enter into any discussions or negotiate with (or provide non-public information to or otherwise afford access to our or our subsidiaries properties, books or records) any third party in connection with any proposal relating to an alternative transaction;

- agree to enter into any letter of intent or similar agreement in principle or other contract with respect to, or approve or recommend or otherwise endorse or support, any proposal relating to an alternative transaction; or

- grant any waiver or release to any person under any standstill or similar agreement to which we are a party;

- cease (and cause our subsidiaries and our respective representatives to cease) immediately and cause to be terminated any discussions or negotiations with third parties relating to any alternative transaction that were conducted prior to our signing the merger agreement;

- promptly notify Buyer orally and in writing of the material terms (including the identity of the third party) of any proposals received relating to any alternative transaction, any material changes relating thereto or any other requests for information, discussions or negotiations relating thereto;

- notify our representatives of the non-solicitation restrictions contained in the merger agreement and use our reasonable best efforts to ensure our and our subsidiaries representatives do not violate any such restrictions;

- provide written notice to Buyer of our actions prior to furnishing information to or entering into discussions with a third party in connection with a proposal relating to an alternative transaction; provide to Buyer any non-public information concerning us or our subsidiaries that is provided to the third party and was not previously provided to Buyer;

and execute a confidentiality agreement with the third party on terms that are comparable to and no less restrictive than the confidentiality agreement between us and Kelso;

- not (i) approve or enter into any letter of intent, agreement in principle, acquisition agreement or similar contract relating to any alternative transaction or (ii) approve or recommend or publicly propose to approve or recommend any alternative transaction; provided, that if, prior to the receipt of stockholder approval, our board determines in good faith, after consultation with its outside legal counsel and financial advisor, that a superior proposal has been made, our board may (A) approve or recommend such superior proposal, (B) cause us to enter into a binding definitive agreement with respect to such superior proposal, or (C) terminate the merger agreement prior to the special meeting; provided, further that prior to taking any of the foregoing actions, we (x) provide Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (y) cooperate and negotiate with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (z) consider any revised proposal made by Buyer before determining, in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal; or

- our board formally resolves to take, or publicly announces an intention to take, any of the foregoing actions;

- by Buyer, if Buyer is not in material breach of the merger agreement, if we materially breach any of our representations, warranties, covenants or agreements set forth in the merger agreement that would cause the closing conditions specific to us to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured); or

- by us, if:

- prior to the special meeting, our board determines in good faith, after consultation with its outside legal counsel and financial advisor, that a superior proposal has been made (subject to the requirement that we have (A) provided Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (B) cooperated and negotiated with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (C) considered any revised proposal made by Buyer before determining, in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal);

- Buyer materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement that would cause the closing conditions specific to Buyer Parties to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured), except that we may not terminate the merger agreement based on this reason if:

- we are in material breach of the merger agreement; or

- if Buyer Parties material breach is with respect to the financing representation or financing covenant, if (i) the marketing period either has not commenced or ended at the time we would have a right to terminate for such material breach, and (ii) Buyer Parties are using their reasonable best efforts to obtain the financing and the financing is reasonably likely to be obtained prior to the end of the marketing period; or

- the mutual conditions and the conditions to Buyer Parties obligation to close have been satisfied (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7 5/8% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger) and on the last day of the marketing period, none of Buyer Parties have received sufficient financing to consummate the merger and our failure to fulfill any of our obligations under the merger agreement has not been a principal cause of or reasonably resulted in the failure of Buyer to have received such financing by the last day of the marketing period.

Termination Fee Payable to Us

The merger agreement provides that Buyer will pay to us a termination fee of $40 million if the merger agreement is terminated under the following circumstances:

- by either Buyer or us on the final date if:

- the merger is not consummated by the final date based upon Buyer Parties failure to obtain sufficient financing to consummate the merger by the end of the marketing period; and

- the mutual conditions and the conditions to Buyer Parties obligation to close have been satisfied at the time of termination on the final date (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7 5/8% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger).

- by us, if:

- the mutual conditions and the conditions to Buyer Parties obligation to close have been satisfied at the time of termination (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7 5/8% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger);

- we are not in material breach of the merger agreement at the time of termination; and

- we terminate the merger agreement in connection with a material breach by Buyer related to Buyer Parties failure to obtain sufficient financing by the end of the marketing period, or Buyer Parties material and intentional breach of their financing representations or financing covenants under the merger agreement, and in either case, such breach would cause the closing conditions specific to Buyer to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured), unless:

- if Buyer Parties material breach is with respect to the financing representation or financing covenant, if (i) the marketing period either has not commenced or ended at the time we would have a right to terminate the merger agreement for such material breach, and (ii) Buyer Parties are using their reasonable best efforts to obtain the financing and

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the financing is reasonably likely to be obtained prior to the end of the marketing period; or

- by us, if the mutual conditions and the conditions to Buyer Parties obligation to close have been satisfied (other than our delivery of our officer s certificate and our obligation to (i) satisfy and discharge our outstanding 7 5/8% senior subordinated notes, and (ii) repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger) and on the last day of the marketing period, none of Buyer Parties have received sufficient financing to consummate the merger and our failure to fulfill any of our obligations under the merger agreement has not been a principal cause of or reasonably resulted in the failure of Buyer Parties to have received such financing by the last day of the marketing period.

This termination fee is only payable once and we will not receive payment of this termination fee if Buyer is entitled to a termination fee from us (or a portion thereof) or Buyer is entitled to reimbursement of its transaction expenses, in each case as described below.

Termination Fee Payable to Buyer

The merger agreement provides that we will pay to Buyer a termination fee of $40 million if the merger agreement is terminated under the following circumstances:

- by us, prior to the special meeting, if our board determines in good faith, after consultation with our outside legal counsel and financial advisor, that a superior proposal has been made and our board (i) approves or recommends such superior proposal, (ii) causes us to enter into a binding definitive agreement with respect to such superior proposal, and (iii) terminates the merger agreement; provided, that prior to taking any such action we have (A) provided Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (B) cooperated and negotiated with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (C) considered any revised proposal made by Buyer before determining, in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal;

- by Buyer if:

- our board amends, modifies or withdraws its recommendation in favor of the merger;

- our board adopts a formal resolution approving or recommends to our stockholders an alternative transaction or publicly announces that it has received a superior proposal;

- prior to the date of the special meeting, we provide Buyer with notice of our intention to terminate the merger agreement based upon our receipt of a superior proposal;

- we fail to include our board s recommendation of the merger in this proxy statement;

- our board fails to recommend against a third party tender or exchange offer relating to our common stock that, if consummated, would constitute an alternative transaction, within ten business days of the commencement of such tender or exchange offer;

- our board publicly announces that it has received a proposal (other than a tender offer or exchange offer described above) relating to an alternative transaction and has determined that

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such proposal constitutes or could reasonably be expected to lead to a superior proposal and, within ten business days of such public announcement (or a longer period of time, if deemed necessary by our board to comply with its fiduciary duties, but no later than five business days prior to the date the stockholder vote is held at the special meeting), our board has not made a further public announcement stating that it both recommends against the third party proposal (or indicated that such proposal has been withdrawn and negotiations terminated) and reconfirms its recommendation of the merger; or

- we materially and intentionally breach any of our obligations under the merger agreement to:

- not (and cause each of our subsidiaries not to) and not authorize or permit any of our or our subsidiaries representatives to, directly or indirectly:

- initiate, solicit, knowingly encourage (including by way of furnishing non-public information) or take any action to facilitate any inquiries or the making of any proposal relating to, or that could reasonably be expected to lead to, an alternative transaction;

- enter into any discussions or negotiate with (or provide non-public information to or otherwise afford access to our or our subsidiaries properties, books or records) any third party in connection with any proposal relating to an alternative transaction;

- agree to enter into any letter of intent or similar agreement in principle or other contract with respect to, or approve or recommend or otherwise endorse or support, any proposal relating to an alternative transaction; or

- grant any waiver or release to any person under any standstill or similar agreement to which we are a party;

- cease (and cause our subsidiaries and our respective representatives to cease) immediately and cause to be terminated any discussions or negotiations with third parties relating to any alternative transaction that were conducted prior to our signing the merger agreement;

- promptly notify Buyer orally and in writing of the material terms (including the identity of the third party) of any proposals received relating to any alternative transaction, any material changes relating thereto or any other requests for information, discussions or negotiations relating thereto;

- notify our representatives of the non-solicitation restrictions contained in the merger agreement and use our reasonable best efforts to ensure our and our subsidiaries representatives do not violate any such restrictions;

- provide written notice to Buyer of our actions prior to furnishing information to or entering into discussions with a third party in connection with a proposal relating to an alternative transaction; provide to Buyer any non-public information concerning us or our subsidiaries that is provided to the third party and was not previously provided to Buyer; and execute a confidentiality agreement with the third party on terms that are comparable to and no less restrictive than the confidentiality agreement between us and Kelso;

- prior to receipt of stockholder approval, not (i) approve or enter into any letter or intent, agreement in principle or similar contract relating to any alternative transaction (ii) approve or recommend or publicly propose to approve or recommend any alternative transaction; provided that, if, prior to the special meeting, if our board determines in good faith, after consultation with our outside legal counsel and financial advisor, that a

superior proposal has been made and our board may (A) approve or recommend such superior proposal, (B) cause us to enter into a binding definitive agreement with respect to such superior proposal, and (C) terminate the merger agreement; provided, that prior to taking any such action we have (x) provided Buyer with at least five business days prior notice (including the material terms and conditions of such superior proposal and the identity of the person making such proposal) of our intention to terminate the merger agreement, (y) cooperated and negotiated with Buyer during such five business day period (or any extension for an additional five business days if the material terms of such superior proposal are amended) to enable Buyer to make an offer that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal, and (z) considered any revised proposal made by Buyer before determining, in good faith that Buyer has not made an offer, within such five business day period (or any extension thereof), that is at least as favorable to our stockholders, from a financial point of view, as the transactions contemplated by such superior proposal; or

- our board formally resolves to take, or publicly announces an intention to take, any of the foregoing actions.

This termination fee is only payable once and Buyer will not receive payment of this termination fee if we are entitled to a termination fee from Buyer, as described above, or we are entitled to reimbursement of our transaction expenses, as described below.

The merger agreement also provides that, unless we are otherwise obligated to pay Buyer a termination fee of $40 million due to any breach described above, we will pay to Buyer 25% of the $40 million termination fee, or $10 million, in the event that, prior to termination, a proposal relating to an alternative transaction has been publicly announced, disclosed, or otherwise communicated to our board and such proposal has not been irrevocably withdrawn, and the merger agreement is terminated under any of the following circumstances:

- by either Buyer or us if the merger is not consummated by the final date;

- by Buyer or us if our stockholders do not approve the merger at the special meeting (including any adjournment or postponement thereof), except we may not terminate the merger agreement based on this reason if the failure to obtain such approval is caused by or related to our material breach of the merger agreement; or

- by Buyer, if it is not in material breach of the merger agreement, if we materially breach any representation, warranty, covenant or agreement that would cause the mutual closing conditions or closing conditions specific to us to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured).

In addition, we will pay to Buyer 75% of the termination fee, or $30 million, if, within twelve months after a termination described in the preceding paragraph, we recommend or enter into, or submit to our stockholders for adoption an agreement with a third party with respect to, or consummate any of the following:

- a transaction or series of transactions pursuant to which any third party acquires, or seeks to acquire, directly or indirectly, beneficial ownership of more than 50% of the outstanding shares of our common stock or any of our other securities or any securities of our material subsidiaries, or assets representing more than 50% of our or our subsidiaries assets on a consolidated basis;

- a merger or other business combination in which a third party acquires more than 50% of our or any of our material subsidiaries outstanding equity securities or voting power, or immediately after which our stockholders prior to such transaction cease to own, directly or indirectly, more than 50% of the equity securities or voting stock of the entity surviving such merger or other business combination;

- a consolidation, recapitalization, share exchange or similar extraordinary transaction involving us or any of our material subsidiaries (other than the recapitalization of any of our material subsidiaries or a merger, consolidation, share exchange or amalgamation involving any of our material subsidiaries with us or any of our other subsidiaries); or

- a transaction or series of transactions which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

Notwithstanding the foregoing, we are not obligated to pay a termination fee of $40 million more than once under any circumstance.

Expenses

Our Transaction Expenses. Buyer will pay to us our transaction expenses, up to $8 million, if:

- we are not otherwise in material breach of the merger agreement;

- Buyer has not paid the termination fee to us; and

- the merger agreement is terminated by:

- us, based upon a material breach by Buyer of any of its representations, warranties, covenants or agreements set forth in the merger agreement that would cause the closing conditions specific to Buyer Parties to fail to be satisfied (subject to a 30-day cure period for breaches that, by their nature, may be cured), except that we may not terminate the merger agreement based on this reason if:

- we are in material breach of the merger agreement; or

- if Buyer Parties material breach is with respect to the financing representation or financing covenant, if (i) the marketing period either has not commenced or ended at the time we would have a right to terminate for such material breach, and (ii) Buyer Parties are using their reasonable best efforts to obtain the financing and the financing is reasonably likely to be obtained prior to the end of the marketing period; or

- either Buyer or us if the merger is not consummated by the final date, and Buyer Parties have materially breached the merger agreement.

Buyer Transaction Expenses. We will pay to Buyer its transaction expenses, up to $8 million, if:

- we have not paid the termination fee (or a portion thereof) to Buyer;

- Buyer Parties are not otherwise in material breach of the merger agreement; and

- the merger agreement is terminated under the following circumstances:

- by either Buyer or us at the final date if the merger is not consummated by the final date and either;

- the special meeting has not been held prior to the final date based on the risk that stockholder approval of the merger would not be obtained; or

- we have materially breached the merger agreement;

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- by Buyer or us if our stockholders do not approve the merger at the special meeting (including any adjournment or postponement thereof), except we may not terminate the merger agreement based on this reason if the failure to obtain such approval is the result of our material breach of the merger agreement; or

- Buyer if we are in material breach of any of our representations, warranties, covenants or agreements, provided the conditions to our obligation to close have been satisfied (other than Buyer s delivery of its officer s certificate and obligation to provide the funds necessary for us to satisfy and discharge our outstanding 7 5/8% senior subordinated notes and repay and terminate our existing credit facility and hedge agreements, each of which are required to be satisfied at the effective time of the merger).

Amendment and Waiver

Subject to applicable law, the merger agreement may be amended by the parties by action taken by their respective boards at any time prior to the effective time of the merger, except that, after approval of the merger by our stockholders, no amendment may be made that by law requires further approval of our stockholders without obtaining such further approval. The merger agreement may not be amended except by an instrument in writing signed by the parties thereto.

At any time prior to the effective time of the merger, each of the parties to the merger agreement may, by written instrument: (i) extend the time for the performance of any of the obligations or other acts of the other party; (ii) waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or any document delivered pursuant to the merger agreement; or (iii) waive compliance with any of the agreements or conditions contained in the merger agreement.

Specific Performance

We cannot seek specific performance to require Buyer Parties to complete the merger and our sole and exclusive remedy against Buyer Parties with respect to any claims arising out of the merger agreement (including with respect of the termination thereof) is to seek recovery under the limited guarantees (see *Limited Guarantees,* beginning on page 92) except with respect to claims permitted under the confidentiality agreement between us and Kelso and the following claims for equitable relief under the merger agreement (pursuant to which we may enjoin Buyer Parties from breaching any of the obligations set forth below):

- maintain the confidentiality of our non-public information, obtained by Buyer Parties during their additional diligence and in connection with their efforts to obtain the financing, pursuant to the confidentiality agreement between us and Kelso;

- consult us prior to making any public announcement or filing;

- not solicit our employees prior to the closing of the merger; and

- not acquire direct or indirect ownership of our common stock prior to the earlier of the termination of the merger agreement or the effective time of the merger.

LIMITED GUARANTEES

The summary of the material terms of the limited guarantees of each of the Equity Sponsors below and elsewhere in this proxy statement is qualified in its entirety by reference to each limited guarantee, a copy of which is attached to this proxy statement as Annexes B-1, B-2, B-3 and B-4, and which are incorporated by reference into this document. This summary does not purport to be complete and may not contain all of the information about the limited guarantees that is important to you. We encourage you to read carefully each limited guarantee in its entirety, as the rights and obligations of the parties are governed by the express terms of each limited guarantee and not by this summary or any other information contained in this proxy statement.

Each of the Equity Sponsors has agreed to unconditionally and irrevocably guarantee the prompt and complete payment, if and when due under the merger agreement, of a pro rata percentage of the obligation of Buyer to (i) pay to us a termination fee of $40 million if the merger agreement is terminated under certain circumstances; or (ii) reimburse our transaction expenses, up to $8 million, if the merger agreement is terminated under certain circumstances. The aggregate cap on liabilities under all of the limited guarantees is equal to $40 million (exclusive of our reasonable attorneys   fees and other costs and expenses in the event that we are the prevailing party in an action or suit to enforce any limited guarantee) and the cap on liabilities under each limited guarantee of an Equity Sponsor is equal to such Equity Sponsor   s pro rata percentage of $40 million. Each Equity Sponsor   s pro rata percentage equals its proportionate equity commitment in Buyer. The obligations of each Equity Sponsor under the limited guarantee are several and not joint, with the exception of Kelso and IAAI and Parthenon and IAAI, each pair of which jointly executed a limited guarantee that provides that the co-guarantors are jointly and severally liable. Each limited guarantee will remain in full force and effect until the earlier of the effective time of the merger, the termination of the merger agreement under circumstances that do not give rise to any payment obligation of Buyer Parties, or the payment in full of all obligations of Buyer Parties; provided, that if we commence an action with respect to the limited guarantee in a court of competent jurisdiction, the limited guarantee shall remain in full force and effect until the final resolution of such action. However, each limited guarantee may be terminated if we commence an action seeking to invalidate the provisions of such guarantee which cap each Equity Sponsor   s liability at its pro rata percentage of the $40 million.

MARKET PRICE AND DIVIDEND DATA FOR COMMON STOCK

Our common stock is listed on the New York Stock Exchange under the symbol KAR. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the New York Stock Exchange.

CALENDAR PERIOD	HIGH	LOW	CASH DIVIDEND DECLARED
2004			
Second Quarter (beginning on June 16, 2004, the date of the Initial Public Offering)	$ 25.90	$ 24.00	
Third Quarter	$ 24.85	$ 15.75	
Fourth Quarter	$ 21.50	$ 15.11	$ 0.075
2005			
First Quarter	$ 24.41	$ 19.20	$ 0.075
Second Quarter	$ 24.65	$ 21.40	$ 0.075
Third Quarter	$ 24.77	$ 21.50	$ 0.075
Fourth Quarter	$ 24.99	$ 20.68	$ 0.075
2006			
First Quarter	$ 26.80	$ 23.67	$ 0.075
Second Quarter	$ 27.14	$ 20.41	$ 0.075
Third Quarter	$ 23.42	$ 19.65	$ 0.075
Fourth Quarter	$ 28.18	$ 23.11	$ 0.075

On July 26, 2006, the trading date when the board of directors authorized the exploring of possible strategic alternatives for us to enhance stockholder value, our common stock closed at $20.31 per share. On December 21, 2006, the last trading day before we announced that the board of directors approved the merger agreement, our common stock closed at $25.40 per share. On [ ], the last trading day before this proxy statement was printed, our common stock closed at [$] per share. You are encouraged to obtain current market quotations for our common stock in connection with voting your shares.

As of [ ], 2007, there were [ ] shares of our common stock outstanding held by approximately [ ] holders of record.

The merger agreement provides that, unless consented to in writing by Buyer, after execution of the merger agreement and prior to the effective time of the merger or termination of the merger agreement in accordance with its terms, we will not declare, set aside or pay any dividend or make any other distribution in respect of our or our subsidiaries capital stock.

SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth information concerning the beneficial ownership of Company common stock as of January 15, 2007, for each member of our board of directors, each of our named executive officers, our directors and executive officers as a group and each person known to us to own beneficially more than 5% of the outstanding our common stock. At the close of business on January 15, 2007, there were 90,136,438 shares of our common stock outstanding. Except as otherwise noted, each stockholder has sole voting and investment power with respect to the shares beneficially owned.

Please see the footnotes below for the disclosure required by the Exchange Act, for each of the parties listed below. We obtained the information presented below for stockholders other than executive officers and directors from Schedule 13Gs and amendments thereto, which reflect beneficial ownership as of the dates indicated in the Schedule 13Gs or amendments thereto.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Class
Wynn V. Bussmann (2)	16,594	(3)	*
Thomas L. Cunningham (2)	10,874	(4)	*
Timothy C. Clayton (2)	1,000		*
Cameron C. Hitchcock	223,210	(5)	*
David G. Gartzke (2)	1,078,878	(6)	1.18 %
Dennis O. Green (2)	9,807	(7)	*
George J. Lawrence (2)	160,751	(8)	*
A. R. Sales (2)	4,836		*
Nick Smith (2)	34,682	(9)	*
Bradley A. Todd (2)	299,242	(10)	*
Donald C. Wegmiller (2)	52,111	(11)	*
Deborah L. Weinstein (2)	12,934	(12)	*
Royce & Associates, LLC (13) 1414 Avenue of the Americas New York, NY 10019	6,458,675		7.18 %
All directors and executive officers as a group (18 persons)	2,347,619		2.54 %

*represents less than 1%.

(1)Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise, has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership by a person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days. Unless otherwise indicated, the number of shares shown includes outstanding shares of common stock owned as of January 15, 2007 by the person indicated and shares underlying options owned by such person on January 15, 2007 that are exercisable within 60 days of that date.

(2)The address of each of our directors and officers is c/o ADESA, Inc., 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032.

(3)Includes 4,892 shares of common stock issuable upon exercise of options.

(4)Includes 2,446 shares of common stock issuable upon exercise of options.

(5)Includes 215,580 shares of common stock issuable upon exercise of options.

(6)Includes 998,306 shares of common stock issuable upon exercise of options.

(7)Includes 1,427 shares of common stock issuable upon exercise of options.

(8)Includes 159,348 shares of common stock issuable upon exercise of options.

(9)Includes 10,825 shares of common stock issuable upon exercise of options.

(10)Includes 288,910 shares of common stock issuable upon exercise of options.

(11)Includes 14,596 shares of common stock issuable upon exercise of options.

(12)Includes 1,427 shares of common stock issuable upon exercise of options.

(13)Based on a Schedule 13G filed on January 17, 2007 by Royce & Associates, LLC. The Schedule 13G discloses that as of December 31, 2006, Royce & Associates, LLC had sole voting and sole dispositive power as to 6,458,675 shares.

**ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING
(PROPOSAL NO. 2)**

We are asking our stockholders to vote on a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are insufficient votes at the time of the special meeting to adopt and approve the merger agreement. We currently do not intend to adjourn or postpone our special meeting if there are sufficient votes to adopt and approve the merger agreement. The approval of the proposal to adjourn or postpone our special meeting, if necessary, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter.

Our board of directors also unanimously (excluding the recused directors Messrs. Gartzke and Sales) recommends that you vote FOR the proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

ADDITIONAL INFORMATION

Other Matters

We know of no other matters that will be presented for consideration at the special meeting. If any other matters properly come before the special meeting, it is the intention of the proxyholders named in the enclosed form of proxy to vote the shares they represent as the board of directors may recommend.

Future Stockholders Proposals

If the merger is completed, we will have no public stockholders and no public participation in any of our future stockholder meetings. If the merger is not completed, you will continue to be entitled to attend and participate in our stockholder meetings and we will hold an annual meeting of stockholders in 2007, in which case stockholder proposals will be eligible for consideration for inclusion in the proxy statement and form of proxy for our 2007 annual stockholders meeting in accordance with Rule 14a-8 under the Exchange Act and our bylaws. If we hold an annual meeting in 2007, we must receive the notice of your intention to introduce a director nominee or to propose an item of business at our 2007 annual meeting in accordance with the following bylaw requirements:

Timing of 2007 Annual Meeting	Deadline for Receiving Notice
If the 2007 annual meeting is held within 25 days preceding or subsequent to the anniversary date (May 17, 2006) of the 2006 annual meeting:	Notice must be received not less than 90 nor more than 120 days in advance of the 2007 annual meeting.
If the 2007 annual meeting is not held within 25 days preceding or subsequent to the anniversary date (May 17, 2006) of the 2006 annual meeting:	Notice must be received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever occurs first.

We will provide stockholders with additional information about submission of stockholder proposals through an additional filing with the SEC in the event we do hold an annual meeting in 2007.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the SEC, Public Reference Room, 101 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 800-SEC-0330 for further information.

The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about us, which we have filed electronically with the SEC. The address of that site is http://www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

You also can obtain reports, proxy statements and other information we filed with the SEC free of charge on ADESA s website at www.adesainc.com or by writing to:

Investor Relations
ADESA, Inc.
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
(800) 923-3725

ANNEX A

AGREEMENT AND PLAN OF MERGER

by and among

KAR HOLDINGS II, LLC
(Buyer)

KAR HOLDINGS, INC.,
a wholly owned subsidiary of Buyer
(Holdings)

KAR ACQUISITION, INC.,
a wholly owned subsidiary of Holdings
(Merger Sub)

and

ADESA, INC.

Dated as of

December 22, 2006

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