ADESA INC
Form 10-Q
August 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

Commission File Number 001-32198

ADESA, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**35-1842546**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032

(Address of principal executive offices)

Registrant s telephone number, including area code: **(800) 923-3725**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of common stock outstanding as of August 9, 2005:

Class	Number of Shares Outstanding
Common	**89,533,971**

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

ADESA, Inc.
Consolidated Statements of Income
(In millions, except per share data)
(unaudited)

	Three Months Ended June 30, 2005	2004	Six Months Ended June 30, 2005	2004
Operating revenues				
Auction and related services	**$ 215.5**	$ 202.6	**$ 430.5**	$ 421.0
Dealer financing	**32.2**	28.4	**61.2**	57.3
Total operating revenues	**247.7**	231.0	**491.7**	478.3
Operating expenses				
Cost of services	**115.8**	110.8	**231.0**	231.6
Selling, general and administrative	**56.7**	53.6	**112.2**	112.8
Depreciation and amortization	**10.0**	8.9	**19.2**	18.1
Total operating expenses	**182.5**	173.3	**362.4**	362.5
Operating profit	**65.2**	57.7	**129.3**	115.8
Interest expense	**8.5**	4.7	**16.6**	8.7
Other income, net	**(2.3)**	(0.6)	**(3.8)**	(1.4)
Income from continuing operations before income taxes	**59.0**	53.6	**116.5**	108.5
Income taxes	**23.0**	21.0	**45.5**	42.6
Income from continuing operations	**36.0**	32.6	**71.0**	65.9
Loss from discontinued operations net of income taxes	**(0.1)**	(4.0)	**(0.1)**	(4.0)
Net income	**$ 35.9**	$ 28.6	**$ 70.9**	$ 61.9
Earnings per share basic				
Income from continuing operations	**$ 0.40**	$ 0.36	**$ 0.79**	$ 0.74
Loss from discontinued operations, net of income taxes		(0.04)		(0.05)
Net income	**$ 0.40**	$ 0.32	**$ 0.79**	$ 0.69
Earnings per share diluted				
Income from continuing operations	**$ 0.40**	$ 0.36	**$ 0.78**	$ 0.74
Loss from discontinued operations, net of income taxes		(0.04)		(0.05)
Net income	**$ 0.40**	$ 0.32	**$ 0.78**	$ 0.69
Dividends declared per common share (Note 12)	**$ 0.075**	$	**$ 0.15**	$

See notes to consolidated financial statements

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ADESA, Inc.
Consolidated Balance Sheets
(In millions, except share data)

	June 30, 2005 (*unaudited*)	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	**$ 254.0**	$ 309.4
Trade receivables, net of allowances of $6.7 (2005) and $7.5 (2004)	**293.8**	161.1
Finance receivables, net of allowances of $4.7 (2005) and $4.3 (2004)	**283.1**	218.6
Deferred income taxes	**29.5**	28.0
Other current assets	**15.8**	13.7
Total current assets	**876.2**	730.8
Other assets		
Goodwill	**525.3**	514.6
Other intangible assets, net of accumulated amortization of $24.6 (2005) and $25.2 (2004)	**38.5**	31.6
Other assets	**55.9**	58.3
Total other assets	**619.7**	604.5
Property and equipment, net of accumulated depreciation of $142.9 (2005) and $130.2 (2004)	**594.4**	578.2
Total assets	**$ 2,090.3**	$ 1,913.5

See notes to consolidated financial statements

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ADESA, Inc.
Consolidated Balance Sheets
(In millions, except share data)

	June 30, 2005 (*unaudited*)	December 31, 2004
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	**$ 409.9**	$ 227.3
Employee benefits and compensation	**32.4**	40.4
Other accrued expenses	**38.2**	36.0
Income taxes payable	**18.2**	25.3
Current maturities of long-term debt	**37.1**	37.1
Current liabilities of discontinued operations	**6.7**	6.5
Total current liabilities	**542.5**	372.6
Non-current liabilities		
Long-term debt	**460.5**	479.0
Deferred tax liabilities	**45.8**	42.1
Other liabilities	**7.6**	8.4
Total non-current liabilities	**513.9**	529.5
Commitments and contingencies (Note 13)		
Stockholders equity		
Preferred stock, $0.01 par value: Authorized shares: 50,000,000 Issued shares: none		
Common stock, $0.01 par value: Authorized shares: 500,000,000 Issued shares: 94,868,104 (2005 and 2004)	**1.0**	1.0
Additional paid-in capital	**670.8**	675.1
Retained earnings	**439.6**	382.2
Unearned compensation	**(3.3)**	(3.1)
Treasury stock, at cost: Shares: 5,352,286 (2005) 4,343,478 (2004)	**(112.3)**	(85.9)
Accumulated other comprehensive income	**38.1**	42.1
Total stockholders equity	**1,033.9**	1,011.4
Total liabilities and stockholders equity	**$ 2,090.3**	$ 1,913.5

See notes to consolidated financial statements

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ADESA, Inc.
Consolidated Statements of Stockholders Equity
(In millions)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2004	94.9	$ 1.0	$ 675.1	$ 382.2	$ (3.1)	$ (85.9)	$ 42.1	$ 1,011.4
Comprehensive income:								
Net income				70.9				70.9
Other comprehensive income (loss), net of tax:								
Foreign currency translation							(4.7)	
Unrealized gain on interest rate swaps							0.7	
Other comprehensive loss								(4.0)
Comprehensive income								66.9
Cash dividends paid to stockholders				(13.5)				(13.5)
Issuance of common stock under stock plans			(6.3)		(0.2)	17.0		10.5
Tax benefits from employee stock plans			2.0					2.0
Repurchase of common stock						(43.4)		(43.4)
Balance at June 30, 2005 *(unaudited)*	**94.9**	**$ 1.0**	**$ 670.8**	**$ 439.6**	**$ (3.3)**	**$ (112.3)**	**$ 38.1**	**$ 1,033.9**

See notes to consolidated financial statements

ADESA, Inc.
Consolidated Statements of Cash Flows
(In millions)
(unaudited)

	Six Months Ended June 30, 2005	2004
Operating activities		
Net income	**$ 70.9**	$ 61.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**19.2**	18.1
Bad debt expense	**1.1**	1.5
Deferred income taxes	**2.2**	4.0
Compensation associated with equity programs	**1.5**	0.1
Other non-cash, net	**1.2**	(0.1)
	96.1	85.5
Changes in operating assets and liabilities:		
Finance receivables	**(64.4)**	(31.9)
Trade receivables and other assets	**(134.3)**	(111.3)
Accounts payable and accrued expenses	**117.3**	140.7
Net cash provided by operating activities	**14.7**	83.0
Investing activities		
Acquisition of businesses, net of cash acquired	**(18.7)**	
Purchases of property, equipment and computer software	**(36.7)**	(5.7)
Purchase of other intangibles	**(0.3)**	
Proceeds from the sale of property, equipment and computer software	**0.1**	10.1
Net cash (used by) provided by investing activities	**(55.6)**	4.4
Financing activities		
Net increase in book overdrafts	**52.6**	31.2
Net decrease in lines of credit		(45.8)
Payments on long-term debt	**(18.5)**	(165.4)
Proceeds from long-term debt		400.0
Payments for debt issuance costs		(9.9)
Net proceeds from issuance of common stock		136.0
Issuance of common stock under stock plans	**9.1**	
Dividends paid to ALLETE		(117.5)
Dividends paid to stockholders	**(13.5)**	
Repurchase of common stock	**(43.4)**	
Transfer to restricted cash		(152.4)
Net cash (used by) provided by financing activities	**(13.7)**	76.2
Effect of exchange rate changes on cash	**(0.8)**	(1.3)
Net (decrease) increase in cash and cash equivalents	**(55.4)**	162.3
Cash and cash equivalents at beginning of period	**309.4**	112.7
Cash and cash equivalents at end of period	**$ 254.0**	$ 275.0
Non-cash activities		
Capital contributions from ALLETE	**$**	$ 1.2

See notes to consolidated financial statements

ADESA, Inc.
Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results from interim periods are not necessarily indicative of results that may be expected for the year as a whole. In the opinion of management, the consolidated financial statements reflect all adjustments considered necessary (consisting of normal recurring accruals) for a fair statement of the Company s financial results for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. A listing of the Company s critical accounting estimates is described in the Critical Accounting Estimates section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

These consolidated financial statements and condensed notes to consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2004 included in the Company s Annual Report on Form 10-K (Commission file number 001-32198) filed with the Securities and Exchange Commission (SEC). As used herein, the terms the Company and ADESA shall mean ADESA, Inc. and its consolidated subsidiaries. The term ALLETE shall mean ADESA s former parent, ALLETE, Inc. and its consolidated subsidiaries.

ADESA is the second largest used vehicle auction network in North America, based upon the number of used vehicles passing through auctions annually, and also provides services such as inbound and outbound logistics, reconditioning, vehicle inspection and certification, titling, administrative and salvage recovery services. Through its wholly owned subsidiary Automotive Finance Corporation (AFC), the Company also provides short-term inventory-secured financing, known as floorplan financing, to primarily used vehicle dealers. ADESA is able to serve the diverse and multi-faceted needs of its customers through the wide range of services offered at its facilities.

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Note 2 New Accounting Standards

ADESA discloses pro forma net income and earnings per share in accordance with Statement of Financial Accounting Standard (SFAS) 123, *Accounting for Stock-Based Compensation* and SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123(R), *Share-Based Payment*. This statement revises SFAS 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123(R) requires that the cost of employees services received in exchange for an award of equity instruments be recognized in the income statement. Compensation cost will be measured based on the grant-date fair value of the equity instruments issued. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render service.

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

In March 2005, the SEC issued Staff Accounting Bulletin 107 (SAB 107), which offers guidance on SFAS 123(R). SAB 107 was issued to assist issuers by simplifying some of the implementation challenges of SFAS 123(R) while enhancing the information that investors receive. Key topics of SAB 107 include discussion on the valuation models available to issuers and guidance on key assumptions used in these valuation models, such as expected volatility and expected term, as well as guidance on accounting for the income tax effects of SFAS 123(R) and disclosure considerations, among other topics.

On April 14, 2005, the SEC approved a new rule for public companies that delayed the effective date of SFAS 123(R) to annual, rather than interim, periods that begin after June 15, 2005. As such, the Company will adopt SFAS 123(R) on January 1, 2006. Once adopted, the Company will be required to record compensation cost as expense for the portion of outstanding unvested awards, based on the grant-date fair value of those awards. The Company expects to apply the prospective transition method of SFAS 123(R), which would allow the Company to prospectively record expense for the compensation costs related to the portion of outstanding unvested awards at January 1, 2006, without restating any prior periods. The Company is currently considering the financial accounting and income tax implications of SFAS 123(R) and SAB 107.

Note 3 Stock-Based Compensation

The Company has adopted the disclosure-only provisions of SFAS 123, as amended by SFAS 148. The Company accounts for stock-based compensation under APB Opinion No. 25, and related interpretations, using the intrinsic value method. Accordingly, the Company has not recognized compensation expense for employee stock options that have been granted.

On February 15, 2005 and April 26, 2005, the Company granted options to purchase approximately 0.7 million shares and approximately 0.1 million shares of ADESA common stock, with exercise prices of $22.44 per share and $24.00 per share, respectively, under the ADESA, Inc. 2004 Equity and Incentive Plan. The $22.44 options vest in equal increments at February 14, 2006, 2007 and 2008. The $24.00 options vested immediately upon grant. The options have a six year life.

On March 9, 2005, the Board of Directors of the Company accelerated the vesting of certain unvested and out-of-the-money stock options previously awarded to employees and officers that have an exercise price of $24. The awards accelerated were made under the ADESA, Inc. 2004 Equity and Incentive Plan in conjunction with ADESA s initial public offering (IPO) in June 2004. As a result, options to purchase approximately 2.9 million shares of the Company s common stock became exercisable immediately. The options awarded in conjunction with the IPO to the Company s named executive officers and the majority of the other officers would have vested in equal increments at June 15, 2005, 2006 and 2007. The options awarded to certain other executive officers and employees had different vesting terms. One-third of the options awarded to the other executive officers and employees vested on December 31, 2004. The remaining two-thirds of the options awarded to these executive officers and other employees in conjunction with the IPO would have vested in equal increments at December 31, 2005 and 2006. All of these options expire in June 2010. All other terms and conditions applicable to the outstanding stock option grants remain in effect.

The Company and its Board of Directors considered several factors in determining to accelerate the vesting of these options. Primarily, the acceleration will enhance the comparability of the Company s financial statements in prior and subsequent periods. The options awarded to the executive officers were special, one-time grants in conjunction with the Company s IPO. As such, these grants are not indicative of past grants when ADESA was a subsidiary of ALLETE prior to June 2004 and are not representative of

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

the Company s expected future grants. The Company and Board also believe that the acceleration is in the best interest of the stockholders as it will reduce the Company s reported stock option expense in future periods mitigating the impact SFAS 123(R) that will take effect in the first quarter of 2006.

As a result of the acceleration, the Company disclosed incremental, pro forma stock-based employee compensation expense of approximately $7.7 million, net of tax, in its first quarter 2005 pro forma disclosure. The acceleration also resulted in a $2.0 million reduction in the after-tax pro forma stock-based employee compensation expense disclosed in the second quarter of 2005. In addition, the acceleration will result in reductions in the after-tax pro forma stock-based employee compensation expense disclosed in the third and fourth quarters of 2005 of $1.1 million and $1.1 million. The Company did not record any stock-based employee compensation expense in the consolidated statements of income associated with the acceleration of these options because the intrinsic value (the excess of the market price of the common stock over the exercise price of option) of the options at the date of acceleration was not greater than of the original intrinsic value of the options. The Company expects that the acceleration will reduce the stock option expense it otherwise would have been required to recognize in its consolidated statements of income in conjunction with adopting SFAS 123(R) by approximately $4.8 million in 2006 and $1.2 million in 2007 on a pre-tax basis.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to all stock options. The fair value of stock options was estimated as of the grant date using the Black-Scholes option-pricing model and the attribution method. The Black-Scholes option-pricing model does not consider the non-traded nature of employee stock options, the lack of transferability or a vesting period. If the model took these items into consideration, the resulting estimate for fair value of the stock options could be different. These pro forma amounts may not be representative of the effects on reported net income for future years due to the uncertainty of stock option grant volume and potential changes in assumptions driven by market factors.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
(in millions except per share data)				
Reported net income	**$ 35.9**	$ 28.6	**$ 70.9**	$ 61.9
Add: stock-based employee compensation included in reported net income, net of tax (1)	**0.5**	0.2	**0.7**	0.4
Deduct: total stock-based employee compensation expense, net of tax	**(1.3)**	(0.6)	**(11.4)**	(0.9)
Pro forma net income	**$ 35.1**	$ 28.2	**$ 60.2**	$ 61.4
Earnings per share:				
Basic as reported	**$ 0.40**	$ 0.32	**$ 0.79**	$ 0.69
Basic pro forma	**$ 0.39**	$ 0.31	**$ 0.67**	$ 0.69
Diluted as reported	**$ 0.40**	$ 0.32	**$ 0.78**	$ 0.69
Diluted pro forma	**$ 0.39**	$ 0.31	**$ 0.66**	$ 0.69

(1) Reported amounts include expense associated with restricted stock units and performance share awards.

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

The expense noted above for employee stock options granted, determined under SFAS 123, was calculated using the Black-Scholes option pricing model and the following assumptions:

Assumptions	2005	2004
Risk-free interest rate	**3.6 %**	3.6 %
Expected life years	**4**	4
Expected volatility	**41.0 %**	39.0 %
Dividend growth rate	**1.34 %**	1.25 %

During the first and second quarters 2005, the Company awarded approximately 40,500 and 19,100 restricted stock units (RSUs), respectively, under the Company s 2004 Equity and Incentive Plan to employees representing approximately $0.9 million and $0.4 million of unearned compensation at the grant dates. Under the Plan, certain executive officers receive an annual RSU grant equal to 25% of the bonus earned in the prior year. The awards granted during the first quarter 2005 included approximately 18,800 RSUs (which vest after three years) granted to these certain executive officers of the Company. The vesting schedule for the remaining RSUs granted during the first and second quarters generally range from one to three years from the date of grant. Compensation expense related to RSU awards is recognized ratably over the vesting period.

Note 4 Acquisitions

In the second quarter of 2005, ADESA acquired two auctions for a total cost of $18.7 million, which was paid in cash. On May 3, 2005, the Company completed the purchase of certain of the assets of ABC Washington Dulles, LLC to gain access to the Washington, D.C. auction market. The assets included an 83-acre leased auction facility located in Sterling, Virginia, which commenced operations in 2001 offering six auction lanes and reconditioning facilities, the related operating equipment and all customer relationships related to the auction. In addition, the Company assumed operating lease obligations related to the facility through 2025. Initial annual lease payments for the facility are approximately $1.9 million per year. The Company did not assume any other material liabilities or indebtedness in connection with the acquisition. Financial results for this acquisition have been included in the Company s consolidated financial statements since the date of acquisition.

On June 30, 2005, the Company acquired an independently owned salvage auction facility serving Charlotte and western North Carolina. The assets included an 120-acre facility, the related operating equipment, accounts receivable, and all customer relationships related to the auction. The Company did not assume any material liabilities or indebtedness in connection with the acquisition. Results of operations for this acquisition will be included in the Company s consolidated financial statements commencing in the third quarter of 2005.

The purchase price of the acquisitions was allocated to the acquired assets based upon fair market values, including $3.0 million to other intangible assets, representing the fair value of acquired customer relationships and non-compete agreements, which will be amortized over their expected useful lives ranging from 2 to 20 years. The purchase price allocations resulted in aggregate goodwill of $11.7 million. The purchase price allocations are preliminary as the receipt and analysis of the final appraisals and valuations from third party valuation experts are pending. The goodwill was assigned to the auction and related services reporting segment and is expected to be fully deductible for tax purposes. Pro forma financial results for the acquisitions were not material.

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

Note 5 Long-Term Debt

Long-term debt consists of the following *(in millions)*:

	Interest Rate	Maturity	June 30, 2005	December 31, 2004
Term Loan A	LIBOR + 2.25%	06/21/2009	**$ 140.0**	$ 157.5
Term Loan B	LIBOR + 2.50%	06/21/2010	**198.0**	199.0
Atlanta capital lease obligation	5.0%	12/01/2013	**34.5**	34.5
Other, secured by property	6.0%	12/31/2005	**0.1**	0.1
Senior subordinated notes	7⅝%	06/15/2012	**125.0**	125.0
Total debt			**497.6**	516.1
Less current portion of long-term debt			**37.1**	37.1
Long-term debt			**$ 460.5**	$ 479.0

Concurrent with the Company s June 2004 initial public offering and notes offering, the Company entered into a $525 million senior secured credit facility with a syndicate of lenders, consisting of a $150 million revolving credit facility and two term loan facilities aggregating $375 million. Except for AFC s special purpose subsidiary, the credit facility is guaranteed by substantially all of the Company s direct and indirect domestic subsidiaries and is secured by a pledge of all of the equity interests in the guarantors and a pledge of 65% of the equity interests in certain of the Company s Canadian and Mexican subsidiaries. The credit facility contains customary affirmative and negative covenants, including restrictions on the ability to incur indebtedness, grant liens, pay dividends or make distributions to stockholders and make any prepayment or redemption with respect to the senior subordinated notes. The credit facility also contains financial covenants including a maximum total leverage ratio, a minimum interest coverage ratio and a minimum fixed charge coverage ratio. The senior notes contain certain financial and operational restrictions on paying dividends and other distributions, making certain acquisitions or investments and incurring indebtedness, and selling assets. At June 30, 2005, the Company was in compliance with the covenants contained in both the credit facility and senior notes. On July 25, 2005, the Company entered into an amended and restated $500 million credit facility (see Note 14, Subsequent Event).

Note 6 Derivatives

The Company uses interest rate swap agreements to manage its exposure to interest rate movements and to reduce borrowing costs. In June 2004, the Company entered into two interest rate swap agreements with notional amounts of $105 million and $60 million to manage its exposure to interest rate movements on its variable rate debt. Both interest rate swap agreements contain amortizing provisions and mature in December 2006. The Company has designated its interest rate swap agreements as cash flow hedges. The earnings impact of interest rate swaps designated as cash flow hedges is recognized upon the recognition of the interest related to the hedged debt. Any ineffectiveness in a hedging relationship is recognized immediately into earnings. There was no significant ineffectiveness in the first six months of 2005 or 2004.

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

At June 30, 2005, the fair value of the interest rate swap agreements is a $0.9 million gain, which is recorded in Other assets on the consolidated balance sheet. At December 31, 2004, the fair value of the interest rate swap agreements was a $0.2 million loss which was recorded in Other liabilities on the consolidated balance sheet. Changes in the fair value of the interest rate swap agreements designated as cash flow hedges are recorded in Other comprehensive income . Unrealized gains on interest rate swap agreements are included as a component of Accumulated other comprehensive income . At June 30, 2005, there were unrealized gains totaling $0.6 million, net of taxes of $0.3 million. At December 31, 2004, there were unrealized losses totaling $0.1 million, net of taxes of $0.1 million.

Note 7 Finance Receivables

AFC sells the majority of its US dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, special purpose subsidiary that is consolidated for accounting purposes in accordance with SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The special purpose subsidiary, AFC Funding Corporation, was established for the purpose of purchasing AFC s finance receivables. Effective July 8, 2005, AFC and AFC Funding Corporation amended their securitization agreement. As part of the amendment, the expiration date of the agreement was extended from January 2006 to June 30, 2008; however, this agreement is subject to annual renewal of short-term liquidity by the liquidity providers and allows for the revolving sale by the subsidiary to a bank conduit facility of up to a maximum of $500 million in undivided interests in certain eligible finance receivables subject to committed liquidity. AFC Funding Corporation had $425 million of committed liquidity at June 30, 2005. Receivables sold to the bank conduit facility are not reported on the Company s consolidated balance sheet.

At June 30, 2005, AFC managed total finance receivables of $689.6 million, of which $589.5 million had been sold to AFC Funding Corporation. AFC Funding Corporation sold $401.8 million of these finance receivables to the bank conduit facility with recourse to AFC Funding Corporation at June 30, 2005, leaving $287.8 million of gross finance receivables recorded on the Company s consolidated balance sheet at June 30, 2005.

Receivables under management, sold, and retained were as follows *(in millions)*:

Finance Receivables	**June 30, 2005**	**December 31, 2004**
Total receivables managed	**$ 689.6**	$ 582.7
Less: amounts sold	**(401.8)**	(359.8)
Receivables retained	**287.8**	222.9
Less: allowance for losses	**(4.7)**	(4.3)
Net finance receivables	**$ 283.1**	$ 218.6

Proceeds from the revolving sale of receivables to the bank conduit facility were used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of ADESA s credit facility. At June 30, 2005 the Company was in compliance with the covenants contained in the securitization agreement.

ADESA, Inc.
Notes to Consolidated Financial Statements (Continued)

Note 8 Earnings Per Share

The following table sets forth the computation of earnings per share *(in millions, except per share data)*:

	Three Months Ended June 30, 2005	2004	Six Months Ended June 30, 2005	2004
Income from continuing operations	**$ 36.0**	$ 32.6	**$ 71.0**	$ 65.9
Loss from discontinued operations, net of income taxes	**(0.1)**	(4.0)	**(0.1)**	(4.0)
Net income	**$ 35.9**	$ 28.6	**$ 70.9**	$ 61.9
Weighted average common shares outstanding	**89.69**	89.64	**90.19**	89.12
Effect of dilutive stock options and restricted stock awards	**0.45**	0.06	**0.48**	0.03
Weighted average common shares outstanding and assumed conversions	**90.14**	89.70	**90.67**	89.15
Earnings per share basic				
Income from continuing operations	**$ 0.40**	$ 0.36	**$ 0.79**	$ 0.74
Loss from discontinued operations, net of income taxes		(0.04)		(0.05)
Net income	**$ 0.40**	$ 0.32	**$ 0.79**	$ 0.69
Earnings per share diluted				
Income from continuing operations	**$ 0.40**	$ 0.36	**$ 0.78**	$ 0.74
Loss from discontinued operations, net of income taxes		(0.04)		(0.05)
Net income	**$ 0.40**	$ 0.32	**$ 0.78**	$ 0.69

Basic earnings per share were calculated based upon the weighted-average number of outstanding common shares for the period. Diluted earnings per share were calculated consistent with basic earnings per share including the effect of dilutive unissued common shares related to the Company s stock-based employee compensation programs. Total options outstanding at June 30, 2005 and 2004, were approximately 4.6 million and 2.9 million. Stock options with an exercise price per share greater than the average market price per share were excluded in the calculation of diluted earnings per share for all periods presented as including these options would have an anti-dilutive impact. Approximately 3.2 million options were excluded from diluted earnings per share for the three and six months ended June 30, 2005. For the three and six months ended June 30, 2004, diluted earnings per share included all 2.9 million options outstanding, as the exercise price of these stock options was less than the average market value.

During the three months ended June 30, 2005, the Company repurchased approximately 1.5 million shares of ADESA common stock at an aggregate cost of $34.9 million. The shares repurchased during the second quarter of 2005 included approximately 1.5 million shares at an aggregate cost of $34.7 million repurchased pursuant to the Company s previously approved $130 million share repurchase program. In addition to purchases pursuant to the program, the share activity for the three months ended June 30, 2005, includes shares withheld during the second quarter of 2005 to satisfy tax withholding obligations in

ADESA, Inc.
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connection with the vesting of restricted stock units and performance share awards during the quarter at an aggregate cost of $0.2 million. On May 12, 2005, the Company completed its $130 million share repurchase program. The Company repurchased a cumulative total of 6.2 million shares at a weighted average price of $20.83 and an aggregate cost of $128.9 million pursuant to the program.

Note 9 Comprehensive Income

Comprehensive income is comprised of net income adjusted for changes in foreign currency translation and unrealized gains or losses on interest rate swap contracts designated and qualifying as cash flow hedges. For the second quarter 2005 and 2004, comprehensive income was $32.8 million and $24.5 million. Comprehensive income for the six months ended June 30, 2005 and 2004 was $66.9 million and $55.4 million. The changes in comprehensive income are primarily due to changes in net income and volatility in the Canadian currency.

Note 10 Segment Information

The Company operates in two business segments: (1) Auction and Related Services and (2) Dealer Financing. These reportable segments offer different services and have fundamental differences in their operations. A holding company is maintained separately from the two reportable segments and includes expenses associated with being a public company, such as salaries, benefits, travel costs for the corporate management team, Board of Directors fees, investor relations costs, incremental insurance, treasury, legal, accounting, and risk management costs. Holding company interest includes the interest incurred on the corporate debt structure. The majority of costs incurred at the holding company are not allocated to the two business segments.

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Financial information regarding the Company s two reportable segments, Auction and Related Services and Dealer Financing, is set forth below *(in millions)*:

	Auction and Related Services	Dealer Financing	Holding Company	Consolidated
Three Months Ended June 30, 2005				
Operating revenues	$ 215.5	$ 32.2	$	$ 247.7
Operating expenses				
Cost of services	109.6	6.2		115.8
Selling, general and administrative	47.2	5.3	4.2	56.7
Depreciation and amortization	8.9	1.0	0.1	10.0
Total operating expenses	165.7	12.5	4.3	182.5
Operating profit (loss)	49.8	19.7	(4.3)	65.2
Interest expense	1.6		6.9	8.5
Other income, net	(1.4)	(0.1)	(0.8)	(2.3)
Income (loss) from continuing operations before income taxes	49.6	19.8	(10.4)	59.0
Income taxes	19.4	7.7	(4.1)	23.0
Income (loss) from continuing operations	$ 30.2	$ 12.1	$ (6.3)	$ 36.0
Assets	$ 1,479.2	$ 344.2	$ 266.9	$ 2,090.3
Three Months Ended June 30, 2004				
Operating revenues	$ 202.6	$ 28.4	$	$ 231.0
Operating expenses				
Cost of services	104.6	6.2		110.8
Selling, general and administrative	44.0	5.1	4.5	53.6
Depreciation and amortization	7.7	1.2		8.9
Total operating expenses	156.3	12.5	4.5	173.3
Operating profit (loss)	46.3	15.9	(4.5)	57.7
Interest expense	3.8		0.9	4.7
Other (income) expense, net	(0.8)	0.2		(0.6)
Income (loss) from continuing operations before income taxes	43.3	15.7	(5.4)	53.6
Income taxes	16.8	6.3	(2.1)	21.0
Income (loss) from continuing operations	$ 26.5	$ 9.4	$ (3.3)	$ 32.6
Assets	$ 1,505.0	$ 311.6	$ 279.0	$ 2,095.6

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Notes to Consolidated Financial Statements (Continued)

	Auction and Related Services	Dealer Financing	Holding Company	Consolidated
Six Months Ended June 30, 2005				
Operating revenues	$ 430.5	$ 61.2	$	$ 491.7
Operating expenses				
Cost of services	218.8	12.2		231.0
Selling, general and administrative	92.7	10.2	9.3	112.2
Depreciation and amortization	16.9	2.1	0.2	19.2
Total operating expenses	328.4	24.5	9.5	362.4
Operating profit (loss)	102.1	36.7	(9.5)	129.3
Interest expense	2.9		13.7	16.6
Other income, net	(2.0)	(0.1)	(1.7)	(3.8)
Income (loss) from continuing operations before income taxes	101.2	36.8	(21.5)	116.5
Income taxes	39.7	14.2	(8.4)	45.5
Income (loss) from continuing operations	$ 61.5	$ 22.6	$ (13.1)	$ 71.0
Assets	$ 1,479.2	$ 344.2	$ 266.9	$ 2,090.3
Six Months Ended June 30, 2004				
Operating revenues	$ 421.0	$ 57.3	$	$ 478.3
Operating expenses				
Cost of services	220.1	11.5		231.6
Selling, general and administrative	94.0	10.9	7.9	112.8
Depreciation and amortization	15.8	2.3		18.1
Total operating expenses	329.9	24.7	7.9	362.5
Operating profit (loss)	91.1	32.6	(7.9)	115.8
Interest expense	7.8		0.9	8.7
Other (income) expense, net	(1.6)	0.2		(1.4)
Income (loss) from continuing operations before income taxes	84.9			