ADESA INC
Form 10-K/A
April 20, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2006

OR

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

Commission File Number 001-32198

ADESA, Inc.

(Exact name of Registrant as specified in its charter)

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

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein , and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately $1,999,058,657 at June 30, 2006.

As of April 11, 2007, the registrant had 90,774,709 shares of common stock outstanding.

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EXPLANATORY NOTE

ADESA, Inc. (ADESA, the company, we, us, and our), is filing this Amendment No. 1 on Form 10-K/A for the year ended December 31, 2((the Form 10-K/A Report) to amend our Annual Report on Form 10-K for the year ended December 31, 2006 (the Original Filing) that was filed with the Securities and Exchange Commission (the SEC) on February 28, 2006. This Form 10-K/A is being filed to include responses to certain items required by Part III, which were originally expected to be incorporated by reference in our definitive proxy statement to be delivered to our stockholders in connection with the 2007 annual meeting of stockholders, to the extent that such a meeting would have been held. Except as set forth in this Form 10-K/A Report, no changes have been made to the Original Filing, and this Form 10-K/A Report does not amend, update or change any other items or disclosures in the Original Filing. This Form 10-K/A Report does not reflect events that occurred after the Original Filing.

PENDING MERGER OF ADESA, INC.

On December 22, 2006, we entered into a definitive merger agreement to be acquired by a group of private equity funds consisting of affiliates of Kelso & Company, GS Capital Partners, ValueAct Capital and Parthenon Capital. Effective upon the merger, Insurance Auto Auctions, Inc., a leading provider of automotive salvage auction and claims processing services in the United States, will be combined with ADESA. At the effective time of the merger, each share of outstanding common stock of the company will be converted into the right to receive $27.85 in cash, without interest. The transaction has been approved by our stockholders, but is still subject to the satisfaction of certain remaining closing conditions as set forth in the merger agreement. Pending the satisfaction of the remaining closing conditions set forth in the merger agreement, ADESA and the acquiring private equity firms expect the acquisition of the company to be completed by the end of April, 2007, although there are no assurances the merger will close at that time, if at all.

Information contained in this Form 10-K/A Report, especially forward looking information, should be read in light of the proposed merger.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

BOARD STRUCTURE AND CORPORATE GOVERNANCE

Board Structure and Committees

The Board of Directors is divided into three classes serving staggered terms until 2009 when the entire Board will be elected annually. The Board has eight directors and the following three committees:

- audit;
- executive compensation; and
- corporate governance and nominating.

The membership and the function of each committee are described below. During 2006, the Board held 17 meetings and the audit, executive compensation and corporate governance and nominating committees held thirteen, five and four meetings, respectively. Each director attended at least 75% of the aggregate number of Board and applicable committee meetings. It is the Board s policy that directors are expected to attend ADESA s annual meeting of stockholders. All of the directors attended the 2006 annual meeting of stockholders.

Audit Committee. The audit committee assists the Board with the oversight of: the integrity of ADESA s financial statements and internal controls; ADESA s compliance with legal and regulatory requirements; the independent registered public accounting firm s (independent auditors) qualifications and independence; and the performance of ADESA s internal audit function and the independent auditors. More specifically, under its current charter, the audit committee, among other things:

- is solely responsible for the appointment, compensation and oversight of the work of ADESA s independent auditors;
- pre-approves all audit and non-audit services to be performed by the independent auditors;
- engages in dialogue with the independent auditors with respect to relationships or services that may impact the objectivity and independence of the independent auditors;
- reviews and discusses with management and the independent auditors ADESA s annual and quarterly financial statements;
- reviews, with management, the independent auditors and the senior internal audit executive, the adequacy and effectiveness of, and any significant changes in, ADESA s internal controls, the accounting policies, procedures or practices of ADESA; and
- reviews the status of compliance with laws, regulations and internal procedures, contingent liabilities and risks that may be material to ADESA.

The responsibilities and activities of the audit committee are described in greater detail in the audit committee charter which can be found in the Investor Relations section of ADESA s web page at www.adesainc.com.

The audit committee consists of Dennis O. Green (chairperson), Wynn V. Bussmann and Thomas L. Cunningham. The Board has determined that each of the members of the audit committee is independent within the meaning of the applicable listing standards of the New York Stock Exchange (the NYSE). The Board has determined that Mr. Green is an audit committee financial expert and independent as defined under the applicable rules of the NYSE and the SEC.

Executive Compensation Committee. The executive compensation committee establishes ADESA s philosophy and policies regarding executive and director compensation; oversees the administration of ADESA s director and executive compensation programs; and reviews the compensation of directors, executive officers and senior management. More specifically, under its current charter, the executive compensation committee, among other things:

- based on the performance evaluation conducted by the corporate governance and nominating committee, sets the compensation level of our Chief Executive Officer (CEO), sets performance goals and approves awards for the CEO under incentive compensation plans;

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- reviews and approves the individual elements of total compensation for our executive officers, other than the CEO, and reviews and approves revisions to ADESA s executive and senior management salary range structure and annual salary increase guidelines; and

- makes recommendations to the Board with respect to our equity and incentive plan, employee stock purchase plan and other similar plans.

The responsibilities and activities of the executive compensation committee are described in greater detail in the section entitled Compensation Discussion and Analysis.

The executive compensation committee consists of Donald C. Wegmiller (chairperson), Wynn V. Bussmann, Thomas L. Cunningham, Nick Smith and Deborah L. Weinstein. The Board has determined that each of the members of the executive compensation committee is independent within the meaning of the applicable listing standards of the NYSE.

Corporate Governance and Nominating Committee. Under its current charter, the corporate governance and nominating committee, among other things:

- develops and recommends to the Board a set of corporate governance principles applicable to ADESA;

- provides recommendations to the Board with respect to:

- Board organization, membership and function;

- committee structure and membership;

- succession planning for the executive management of ADESA; and

- oversees the evaluation of the Board and ADESA s executive officers, including the CEO.

In addition, the corporate governance and nominating committee, in consultation with the Chairman of the Board, is responsible for identifying, screening, personally interviewing and recommending candidates to the entire Board. The Board, as a whole, is responsible for nominating individuals for election to the Board and for filling vacancies on the Board that may occur between annual meetings of the stockholders. In nominating candidates, the Board takes into consideration such factors as it deems appropriate. These factors may include integrity, achievements, judgment, intelligence, personal character, the interplay of the candidate s relevant experience with the experience of other Board members, the willingness of the candidate to devote adequate time to Board duties and likelihood that he or she will be willing and able to serve on the Board for a sustained period. In connection with the selection of nominees for director, due consideration will be given to the Board s overall balance of diversity of perspectives, backgrounds and experiences. It is the Board s policy that any potential nominee must be interviewed by a majority of the members of the corporate governance and nominating committee. The corporate governance and nominating committee will consider any suggestions offered by management, other directors or any stockholder with respect to potential directors.

The corporate governance and nominating committee will consider candidates recommended for nomination by stockholders, provided that the recommendations are made in accordance with the procedures set forth in our charter documents and the rules and regulations of the SEC. Candidates recommended for nomination by stockholders that comply with these procedures will receive the same consideration as other candidates recommended by the committee. In addition, the corporate governance and nominating committee engages a third party search firm, Spencer Stuart, to identify and assist the committee on an ongoing basis in identifying, evaluating and conducting due diligence on potential director nominees.

The corporate governance and nominating committee consists of Deborah L. Weinstein (chairperson), Dennis O. Green and Nick Smith. The Board has determined that each of the members of the corporate governance and nominating committee is independent within the meaning of the applicable listing standards of the NYSE.

Corporate Governance

Corporate Governance Guidelines, Committee Charter and Codes of Ethics. ADESA has had corporate governance guidelines in place since ADESA s completion of its initial public offering in June 2004. ADESA has reviewed internally and with the Board the rules of the SEC and the NYSE s corporate governance listing standards regarding corporate governance policies and processes. ADESA also has adopted charters for its audit committee, executive compensation committee and corporate governance and nominating committee consistent with the applicable rules and standards. You can access ADESA s corporate governance guidelines, committee charters, code of business conduct and ethics and financial code of ethics that applies to ADESA s senior financial officers (and any amendments to, or waivers of, the codes of ethics) in the Investor Relations section of ADESA s web page at www.adesainc.com. These documents also are available in print to any stockholder requesting a copy by writing to ADESA, Inc., 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032, Attention: Corporate Secretary.

Executive Sessions of the Board. At regularly scheduled Board meetings, the Board generally conducts executive sessions of the Board, which are discussions that involve only the non-management directors. ADESA s corporate governance guidelines state that the executive sessions of the Board will be chaired by either the Chairman of the Board (if he or she is an independent director) or by the independent lead director (if the chairman is not an independent director). Because ADESA s Chairman of the Board is not an independent director, ADESA s lead independent director, Deborah L. Weinstein, chairs the executive sessions of the Board.

Communications with Directors. Stockholders and other interested parties may contact any member (or all members) of the Board by mail. To communicate with the Board, any individual directors or any group or committee of directors, correspondence should be addressed to the Board or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent to ADESA, Inc., 13085 Hamilton Crossing Blvd., Carmel, Indiana 46032, Attention: Corporate Secretary.

All communications received as set forth in the preceding paragraph will be opened by the office of the corporate secretary for the sole purpose of determining whether the contents represent a message to ADESA s directors. Any contents that are not in the nature of advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee. In the case of communications to the Board or any group or committee of directors, the corporate secretary s office will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope or e-mail is addressed.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than 10% of the issued and outstanding shares of ADESA common stock to file reports of initial ownership of common stock and other equity securities and subsequent changes in that ownership with the SEC and the NYSE. Based solely on a review of such reports and written representations from the directors and executive officers, we believe that all such filing requirements were met during 2006, except for Messrs. Wegmiller (option exercise) and Sales (stock grant as part of director compensation) who each filed a late Form 4.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

This section describes the compensation program for our executive officers. In particular, this section focuses on our 2006 compensation program and related decisions. Currently, ADESA has 12 executive officers:

Named Executive Officers	**Title**	**Other Executive Officers**	**Title**
David G. Gartzke	Chairman of the Board and Chief Executive Officer	Brenda J. Flayton	Executive Vice President and Chief Administrative Officer
A. R. Sales	President and Chief Operating Officer	Ronald Beaver	Executive Vice President and Chief Information Officer
Timothy C. Clayton	Interim Chief Financial Officer	Charles R Tapp	Executive Vice President Sales and Marketing
Bradley A. Todd	Executive Vice President and President of Auction Services Group	Curtis L. Phillips	Vice President Corporate Development
Cameron C. Hitchcock	Executive Vice President and President of Dealer Services Group	Scott A. Anderson	Vice President and Controller
George J. Lawrence	Executive Vice President, General Counsel and Corporate Secretary	Jonathan L. Peisner	Treasurer

These executives have the broadest job responsibilities and policy-making authority in the company. Details of compensation for our named executive officers, Messrs. Gartzke, Sales, Clayton, Todd, Hitchcock and Lawrence, can be found in the compensation tables beginning on page 20.

Compensation Philosophy and Objectives

The executive compensation committee (the Committee) is committed to delivering a compensation program which is competitive in attracting and retaining key executive talent in the vehicle remarketing and auto finance industry. The following compensation objectives shape our compensation program for our executive officers:

- ***Motivate***. Motivate and focus through incentive compensation programs directly tied to our financial results and the market performance of our common stock.

- ***Support One-Company Culture***. Support a one-company culture and encourage synergies between all business units by aligning rewards with long-term overall company performance and stockholder value.

- ***Mix of Variable Pay***. Provide a significant percentage of total compensation through variable pay based on pre-established goals and objectives.

- ***Attract and Retain***. Design competitive total compensation programs to enhance our ability to attract and retain skilled and experienced executive officers.

- ***Alignment with Stockholders***. Align executives with stockholders and manage from the perspective of owners with an equity stake in ADESA.

- ***Compete***. Provide competitive rewards commensurate with performance and competitive market practices.

Implementing our Philosophy and Objectives

The Committee has established the following processes to assist it in implementing our compensation philosophy and objectives:

- ***Compensation Benchmarking***. We believe that compensation should reflect the value of the job in the marketplace. Because no other publicly traded company has a similar mix of businesses, the Committee annually reviews (solely in connection with the compensation of our named executive officers) the compensation of a group of companies with a similar operating profile and of a similar size and complexity (i.e., auto retailing, auto financing services, logistics, salvage/auto services, trucking and OEMs). In 2006, ADESA s peer group consisted of the following companies:

Airnet Systems, Inc.	EGL Inc.
American Axle & Manufacturing Holdings Inc.	Keystone Automotive Industries, Inc.
Americredit Corp.	O Reilly Automotive Inc.
Asbury Automotive Group Inc.	Ritchie Bros. Auctioneers Incorporated
CarMax Inc.	Superior Industries International Inc.
CNF Inc.	Werner Enterprises Inc.
Copart, Inc.	WFS Financial Inc.
Credit Acceptance Corporation	

The Committee approved ADESA s peer group as developed by internal human resources staff and had it evaluated by the Committee s third party consulting firm, Mercer Human Resource Consulting (Mercer). In addition to the peer group data, ADESA also reviews and incorporates compensation market data into our executive compensation benchmarking to ensure that ADESA s compensation programs are competitive. The market compensation data comes from several executive compensation surveys published by nationally-known consulting firms. In connection with the Committee s review of the compensation of our executive officers (other than our named executive officers) and newly-hired named executive officers, the Committee benchmarks the individual s compensation against relevant industry and market compensation.

Since our initial public offering in 2004, with the guidance of the Committee, we have sought to more closely align our executive compensation program with that of our peer group. Overall, our philosophy is to structure the elements of our compensation program between the 50th and the 75th percentile of the peer group in order to provide a competitive compensation package and to attract and retain skilled and experienced executive officers. However, we strongly believe in engaging the best talent in critical functions, and this may entail negotiations with individual executives who have significant retention packages in place with other employers. In order to recruit these individuals and make them whole for the compensation that they would forfeit by terminating their previous employment, we, with the guidance of the Committee, as appropriate, may decide that it is in the best interest of ADESA to negotiate compensation packages that deviate from the general principle of targeting the 50th to the75th percentile. Similarly, we, with the guidance of the Committee, may determine that it is necessary to make compensation decisions outside of the normal cycles to individuals to address (i) job changes related to shifts in the company s strategic priorities; (ii) strategic investment in individuals deemed critical to our leadership succession plans; and (iii) retention of critical talent. Therefore, for some of our executive officers, the individual compensation elements are above the target range of the 50th to the 75th percentile.

- ***Emphasis on Long-Term Incentive Compensation and Alignment***. The total compensation package for our executive officers places more emphasis on long-term incentive compensation so that they realize value based on the long-term, sustained performance of the company. The long-term incentive opportunity uses different payout vehicles based on the level of the executive officer, however all participants have a component of performance-granted restricted stock units measured on the basis of income from continuing operations (IFCO). The size of the performance-granted restricted stock awards is determined based on the employee s level in the organization. All long-term incentive awards are designed to encourage ownership, facilitate retention, and to provide a meaningful link to financial performance.

- ***The Role of Executive Officers in Determining Executive Compensation***. The Committee makes compensation decisions for all of our executive officers. Our CEO, together with our Chief Administrative Officer and the Executive Compensation group in our Human Resources department, provides recommendations to the Committee regarding compensation actions relating to our executive officers, other than the CEO. During Committee meetings at which compensation actions involving our executive officers, other than our CEO, are discussed, Mr. Gartzke takes an active part in the discussions. Mercer also is available at such meetings and also meets with the Committee in executive session without the presence of management. The Chief Administrative Officer and Executive Compensation group prepare recommendations regarding CEO compensation for the Committee. During Committee meetings at which compensation actions involving Mr. Gartzke are discussed, Mr. Gartzke recuses himself by excusing himself from such discussions.

- ***Role of Compensation Consultant***. Mercer was first retained by the Committee prior to the spin-off from ALLETE, Inc. in 2004. Mercer assists the Committee by providing comparative market data on compensation practices and programs, guidance on industry best practices and design alternatives in delivering an effective total compensation program to executive officers. Mercer is consulted by the Committee to provide additional assurance that the company s programs are reasonable and competitive.

- ***Use of Tally Sheets.*** For the past two years, the Committee has used a tally sheet of all compensation and potential payouts when making executive compensation decisions. Using this tool, the Committee reviews all components of each executive officer s compensation, including:

- Base salary;
- Annual cash incentive compensation;
- Long-term equity-based incentive compensation;
- The dollar value to the executive officer and cost to ADESA of all perquisites and other personal benefits;
- The projected payout obligations under ADESA s supplemental executive retirement plan and Section 401(k) plan; and
- Several potential termination scenarios.

In 2006, the Committee reviewed at a regularly scheduled Committee meeting, a tally sheet containing all the above components and the associated dollar amounts in order to determine the 2006 salaries and bonus opportunities for our executive officers.

- ***Equity Grant Practices***. Our executive officers have not been granted stock options since our initial public offering, other than Messrs. Sales, Beaver and Peisner who were not employed by ADESA at or around the time of our initial public offering. Generally, the exercise price of each stock option awarded under our long-term incentive program is the average of the high and low stock price of ADESA common stock on the date of grant, which is two or three days following the release of our year-end earnings. Restricted stock units are also granted in this manner. Newly-hired executive officers receive their equity awards on their initial date of hire. Because the exercise price is determined by averaging the high and low stock price on the date of grant, under certain limited circumstances, the Committee may grant options to an executive officer at an exercise price less than the closing market price of our common stock on the grant date. In 2006, upon joining the company as our President and Chief Operating Officer, the Committee awarded options to purchase 50,000 shares of our common stock to Mr. Sales with an exercise price ($25.32) which was less than the closing market price of our common stock on the date of the grant ($25.60).

Elements Used to Achieve Compensation Philosophy and Objectives

Components of Executive Compensation for 2006. The Committee believes the total compensation and benefits program for our executive officers should consist of the following:

- base salary;
- annual incentive opportunity namely, the *annual incentive program*;
- long-term incentive opportunity namely, the *long-term incentive program*;
- retirement, health and welfare benefits; and
- perquisites.

Base Salary**.** Base salary is the fixed component of total annual cash compensation. Consistent with our compensation philosophy, base salaries generally represent a smaller

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percentage of total compensation with a majority of total compensation coming from variable incentive compensation tied to company performance. The Committee annually reviews base salaries for our executive officers and at other times in connection with any promotion or other change in responsibility. The Committee reviews proposed base salary increases for executive officers at its April meeting, with the increases generally taking effect on June 1st after the annual meeting of stockholders.

Salaried positions are each assigned a pay grade which has a corresponding salary range associated with the grade. When assigning a pay grade for an executive officer position, the salary range is reviewed against market data from several survey sources based upon the position and level of responsibility. The midpoint of the range generally approximates the median salary of the market data for an equivalent position in the market. The Committee reviews the salary grades for our executive officers annually at the Committee s meeting scheduled in April and makes adjustments to these grades as deemed necessary or appropriate to maintain competitiveness.

Annual salary increases are based on the overall annual salary budget guidelines for the company. Salary levels for our executive officers are set within the salary range based upon various factors, including the individual s performance, budget guidelines, peer group review, experience and tenure in the particular position. As part of the annual budget process, the overall salary structure is reviewed to ensure that it remains competitive within the market. The base salaries paid to our named executive officers for 2006 are shown in the Summary Compensation Table on page 20.

***Annual Incentive Program*.** We provide annual incentive opportunities to our executive officers under the omnibus incentive plan the ADESA, Inc. 2004 Equity and Incentive Plan (the Incentive Plan). We establish specific measures of company performance income from continuing operations (IFCO) or earnings before interest, taxes, depreciation and amortization (EBITDA) for a particular fiscal year pursuant to annual incentive program. Annual cash incentives reward participants for the achievement of annual financial results that we believe to positively impact total stockholder return. The Committee s goal is to provide an annual incentive program that meets the following criteria:

- aligns annual incentives with overall company financial results;
- where appropriate, aligns annual incentives with business unit or division financial results; and
- aligns annual incentives with the stockholder experience.

Annual incentive opportunities are established using job responsibilities, internal equity and market compensation data. The Committee s objectives are to set annual incentive bonus targets such that base salary plus the value of annual incentives is within the broad middle range of peer group companies and based on company performance. Consistent with our compensation philosophy, individuals with greater job responsibilities have a greater proportion of their total annual cash compensation tied to company performance through their annual incentive opportunity.

The Committee uses two measures of company performance in designing incentives for our executive officers: IFCO and EBITDA. Using these two measures, the Committee establishes specific targets that determine the size of payouts under the company s incentive plan.

Threshold performance objectives must be met in order for any payout to occur. Payouts can range from 50% of target awards for performance at threshold to a maximum of 250% of target awards for superior performance or no payout if performance is below threshold. The Committee spends significant time analyzing financial measures and determining the level of performance required to receive threshold, target and superior annual incentive payouts. The Committee has discretion to reduce or eliminate individual payouts for noncompliance with company controls and/or policies or underperformance. The Committee and the CEO have the discretion to reduce our executive officers awards by up to 25% of the award based on the assessment of each executive officer s achievement of specific strategic goals. None of our named executive officers received a reduction in 2006.

For 2006, annual incentive awards to our executive officers were based on an assessment of IFCO at a consolidated level and, for executive officers with business unit responsibilities, EBITDA at the business unit level. Other eligible participants receive payouts based on 100% of the consolidated goal or a combination of consolidated, business unit, region and individual site goals, as appropriate. Every eligible participant has a component of at least 25% tied to consolidated performance to encourage a team-based approach and cultivate alignment with total stockholder returns.

The following table shows the 2006 annual incentive opportunities at target for our named executive officers:

			Bonus Goal Weighting	
Name	**Pro-ration**	**Target (% of Base Salary)**	**IFCO OF ADESA**	**EBITDA OF AFC**
David G. Gartzke		75%	100%	NA
Timothy C. Clayton	7/12	50%	100%	NA
A. R. Sales	8/12	65%	100%	NA
Bradley A. Todd		50%	100%	NA
Cameron C. Hitchcock	7/12	50%	75%	25%
	5/12	50%	100%	NA
George J. Lawrence		45%	100%	NA

The Committee set the following target level for the 2006 annual incentive program: IFCO of $138,386,000, subject to its discretion to pay amounts for individual performance and to make adjustments. The established financial measures are subject to adjustment by the Committee for certain non-operating, non-recurring or extraordinary transactions throughout the year, including acquisitions and divestitures. In 2006, our actual adjusted IFCO was $134,159,000. Accordingly, as adjusted by the Committee, we attained 96.9 percent of our IFCO target which when interpolated, translated to a payout percentage of 65.7 percent of the target payout. The actual payouts to our named executive officers can be found in the Summary Compensation Table under the column Non-Equity Incentive Plan Compensation.

The Committee also has the discretion to increase the amount of participants annual incentive awards. In 2006, the Committee acknowledged that Mr. Clayton was hired in the capacity of an independent contractor to perform the duties of the Chief Financial Officer for ADESA on an interim basis and that the extension of the letter agreement with Mr. Clayton required additional compensation consideration. The Committee also recognized that Mr. Clayton s actual hours worked were substantially more than the 150-200 hours per month set forth in his letter agreement. The Committee further wanted to recognize that Mr. Clayton s performance was exemplary and exceeded their expectations for an interim CFO. As a result, the Committee approved an increase in the annual incentive bonus awarded to Mr. Clayton in the amount of $50,000. In 2006, the amount of Mr. Clayton s aggregate annual incentive award was $127,033.

Long-Term Incentive Program**.** We also provide long-term incentive opportunities to our executive officers under the omnibus Incentive Plan. The long-term incentive opportunity is designed to promote sustained share price growth over the long term and to align executive interests with those of the stockholders. The primary equity vehicles of the long-term incentive plan are stock options, restricted stock units and performance granted restricted stock units. The Committee s goal is to provide a long-term incentive plan that meets the following criteria:

- meaningful in level and design to participants;
- linked to stockholder value creation;
- encourages retention;
- encourages equity ownership; and
- does not significantly dilute the economic interests of stockholders.

In determining the 2006 long-term incentive program under the omnibus Incentive Plan, one of the Committee s goals was to move towards increasing the link between the company s financial performance and long-term incentive award values. In doing so, they carefully considered such issues as the perceived complexity of a plan tied to longer-term financial metrics, limited long-term financial information, appropriate metrics and target-setting criteria. The Committee made significant changes to the design of the 2006 long-term incentive program including the increased use of restricted stock units, the emergence of performance granted restricted stock units as a new equity vehicle in the plan and the decreased use of stock options.

In establishing the new 2006 long-term incentive program, participants were broken down into two groups based on their location as part of the corporate or field group. This was due to the fact that the Committee believed that, while some plan objectives were similar across the entire organization, there were some distinct differences by group. The Committee also established different equity vehicles that would be tied to those specific objectives. The executive officers were included in the corporate employee group.

Following is a further breakdown of the equity incentive vehicles used in the 2006 long-term incentive program.

Stock options. Stock options were granted to the corporate group employees in 2006. Stock options were selected as one of the plan s equity vehicles for these employees because they are well-aligned with stock price growth objectives and they provide continuity with the current compensation program and desired upside leverage. These options will vest ratably over three years, with one-third vesting on each anniversary. Stock options are expected to deliver 75% of the long-term incentive value for these employees.

In 2006, the following named executive officers were not eligible to receive a stock option grant, as each of them received a front-loaded (a heavier concentration of stock option grants associated with an event such as an initial public offering) stock option grant in conjunction with our 2004 initial public offering: Messrs. Gartzke, Todd, Hitchcock and Lawrence. In 2006, Mr. Sales received a performance-based stock option grant for 50,000 shares in connection with his joining ADESA. These stock options will vest ratably over three years from the date of grant based on the success of the following performance measures: set amount of organizational effectiveness savings, implementation of a short-term and intermediate-term management succession plan, and an increase in the number of vehicles remarketed via physical and internet auctions by a set amount.

Service-based restricted stock units. Service-based restricted stock units were granted to certain field group employees in 2006. These awards were made primarily to encourage retention and facilitate ownership. Restricted stock units for field level employees generally vest one-third of the total grant on each anniversary of the grant date (i.e., three-year ratable vest). Restricted stock units are not eligible to receive dividend equivalents. The 2006 awards ranged from 30% to 50% of an employee s long term incentive award opportunity based on level of responsibility within the organization.