

UNITED AUTO GROUP INC

Form 10-Q/A

January 23, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q/A**  
**(Amendment No. 1)**

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

**For the quarterly period ended March 31, 2005**

**or**

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

**For the transition period from**

**to**

**Commission file number 1-12297**

**United Auto Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**22-3086739**

*(I.R.S. Employer  
Identification No.)*

**2555 Telegraph Road,  
Bloomfield Hills, Michigan**

*(Address of principal executive offices)*

**48302-0954**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(248) 648-2500**

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  No

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

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

As of May 2, 2005, there were 46,551,639 shares of voting common stock outstanding.

### Explanatory Note

We are filing this Form 10-Q/A to change the presentation of certain floor plan notes payable information. We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. Consistent with industry practice, we previously reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity. In the third quarter of 2005, we restated floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-trade, and have restated related cash flows as a financing activity to comply with the guidance under SFAS No. 95, Statement of Cash Flows.

The changes in presentation have no effect on net income, earnings per share, stockholder's equity or our conclusion that our disclosure controls and procedures were effective as of March 31, 2005, however, because we are restating the financial statements included in our Form 10-Q, we are also restating our financial statements for entities which became discontinued operations during the nine months ended September 30, 2005. All other information in this amendment is as of the date of the original filing and does not reflect any subsequent information or events occurring after the date of the original filing.

### TABLE OF CONTENTS

|                                                                                                                                           | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>PART I FINANCIAL INFORMATION</b>                                                                                                       |      |
| Item 1. Financial Statements                                                                                                              |      |
| <u>Consolidated Condensed Balance Sheets as of March 31, 2005 (as restated) and December 31, 2004 (as restated)</u>                       | 2    |
| <u>Consolidated Condensed Statements of Income for the three months ended March 31, 2005 and 2004</u>                                     | 3    |
| <u>Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2005 (as restated) and 2004 (as restated)</u>     | 4    |
| <u>Consolidated Condensed Statement of Stockholders' Equity and Comprehensive Income (Loss) for the three months ended March 31, 2005</u> | 5    |
| <u>Notes to Consolidated Condensed Financial Statements</u>                                                                               | 6    |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                      | 20   |
| <u>Item 3. Quantitative &amp; Qualitative Disclosures About Market Risk</u>                                                               | 33   |
| <u>Item 4. Controls and Procedures</u>                                                                                                    | 34   |
| <b>PART II OTHER INFORMATION</b>                                                                                                          |      |
| <u>Item 5. Other Information</u>                                                                                                          | 35   |
| <u>Item 6. Exhibits</u>                                                                                                                   | 35   |
| <u>Signatures</u>                                                                                                                         | 36   |
| <u>Certifications</u>                                                                                                                     | 38   |
| <u>Section 302 Certification of Chief Executive &amp; Chief Financial Officers</u>                                                        |      |
| <u>Section 906 Certification of Chief Executive &amp; Chief Financial Officers</u>                                                        |      |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

|                                                                                         | March 31,<br>2005<br>(Restated)*<br>(Unaudited) | December 31,<br>2004<br>(Restated)* |
|-----------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------|
|                                                                                         | (In thousands, except<br>per share amounts)     |                                     |
| <b>ASSETS</b>                                                                           |                                                 |                                     |
| Cash and cash equivalents                                                               | \$ 19,903                                       | \$ 15,187                           |
| Accounts receivable, net                                                                | 380,849                                         | 356,625                             |
| Inventories                                                                             | 1,334,281                                       | 1,252,358                           |
| Other current assets                                                                    | 56,651                                          | 44,315                              |
| Assets of discontinued operations                                                       | 175,119                                         | 148,921                             |
| <br>                                                                                    |                                                 |                                     |
| Total current assets                                                                    | 1,966,803                                       | 1,817,406                           |
| Property and equipment, net                                                             | 409,330                                         | 406,783                             |
| Goodwill                                                                                | 1,048,324                                       | 1,038,647                           |
| Franchise value                                                                         | 186,619                                         | 183,084                             |
| Other assets                                                                            | 55,387                                          | 86,881                              |
| <br>                                                                                    |                                                 |                                     |
| Total Assets                                                                            | \$ 3,666,463                                    | \$ 3,532,801                        |
| <br><b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                          |                                                 |                                     |
| Floor plan notes payable                                                                | \$ 923,283                                      | \$ 876,758                          |
| Floor plan notes payable non-trade                                                      | 316,235                                         | 320,782                             |
| Accounts payable                                                                        | 252,471                                         | 213,851                             |
| Accrued expenses                                                                        | 189,997                                         | 188,381                             |
| Current portion of long-term debt                                                       | 3,577                                           | 11,367                              |
| Liabilities of discontinued operations                                                  | 107,492                                         | 92,553                              |
| <br>                                                                                    |                                                 |                                     |
| Total current liabilities                                                               | 1,793,055                                       | 1,703,692                           |
| Long-term debt                                                                          | 603,793                                         | 574,970                             |
| Other long-term liabilities                                                             | 180,160                                         | 179,104                             |
| <br>                                                                                    |                                                 |                                     |
| Total liabilities                                                                       | 2,577,008                                       | 2,457,766                           |
| <br>                                                                                    |                                                 |                                     |
| Commitments and contingent liabilities                                                  |                                                 |                                     |
| <b>Stockholders Equity</b>                                                              |                                                 |                                     |
| Preferred Stock, \$0.0001 par value; 100 shares authorized; none issued and outstanding |                                                 |                                     |

5

5

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Common Stock, \$0.0001 par value, 80,000 shares authorized; 48,667 shares issued, including 2,153 treasury shares, at March 31, 2005; 48,636 shares issued, including 2,153 treasury shares, at December 31, 2004

Non-voting Common Stock, \$0.0001 par value, 7,125 shares authorized; none issued and outstanding

Class C Common Stock, \$0.0001 par value, 20,000 shares authorized; none issued and outstanding

|                                        |         |         |
|----------------------------------------|---------|---------|
| Additional paid-in-capital             | 717,143 | 716,273 |
| Retained earnings                      | 323,697 | 305,881 |
| Unearned compensation                  | (4,184) | (4,587) |
| Accumulated other comprehensive income | 52,794  | 57,463  |

|                            |           |           |
|----------------------------|-----------|-----------|
| Total stockholders' equity | 1,089,455 | 1,075,035 |
|----------------------------|-----------|-----------|

|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Total Liabilities and Stockholders' Equity | \$ 3,666,463 | \$ 3,532,801 |
|--------------------------------------------|--------------|--------------|

See Notes to Consolidated Condensed Financial Statements

\* See Note 1

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

|                                                                              | Three Months Ended March 31,             |              |
|------------------------------------------------------------------------------|------------------------------------------|--------------|
|                                                                              | 2005                                     | 2004         |
|                                                                              | (Unaudited)                              |              |
|                                                                              | (In thousands, except per share amounts) |              |
| Revenue:                                                                     |                                          |              |
| New vehicle                                                                  | \$ 1,402,813                             | \$ 1,244,313 |
| Used vehicle                                                                 | 549,904                                  | 497,854      |
| Finance and insurance, net                                                   | 56,301                                   | 49,742       |
| Service and parts                                                            | 272,505                                  | 226,753      |
| Fleet and wholesale vehicle                                                  | 210,594                                  | 181,200      |
| <br>                                                                         |                                          |              |
| Total revenues                                                               | 2,492,117                                | 2,199,862    |
| <br>                                                                         |                                          |              |
| Cost of sales:                                                               |                                          |              |
| New vehicle                                                                  | 1,280,161                                | 1,137,234    |
| Used vehicle                                                                 | 498,879                                  | 453,663      |
| Service and parts                                                            | 124,893                                  | 103,585      |
| Fleet and wholesale vehicle                                                  | 209,616                                  | 179,933      |
| <br>                                                                         |                                          |              |
| Total cost of sales                                                          | 2,113,549                                | 1,874,415    |
| <br>                                                                         |                                          |              |
| Gross profit                                                                 | 378,568                                  | 325,447      |
| Selling, general and administrative expenses                                 | 305,645                                  | 259,651      |
| Depreciation and amortization                                                | 10,273                                   | 8,240        |
| <br>                                                                         |                                          |              |
| Operating income                                                             | 62,650                                   | 57,556       |
| Floor plan interest expense                                                  | (13,280)                                 | (12,725)     |
| Other interest expense                                                       | (11,481)                                 | (10,765)     |
| <br>                                                                         |                                          |              |
| Income from continuing operations before minority interests and income taxes | 37,889                                   | 34,066       |
| Minority interests                                                           | (143)                                    | (320)        |
| Income taxes                                                                 | (13,982)                                 | (13,221)     |
| <br>                                                                         |                                          |              |
| Income from continuing operations                                            | 23,764                                   | 20,525       |
| <br>                                                                         |                                          |              |
| Loss from discontinued operations, net of tax                                | (872)                                    | (321)        |

|                                                       |    |        |    |        |
|-------------------------------------------------------|----|--------|----|--------|
| Net income                                            | \$ | 22,892 | \$ | 20,204 |
| <b>Basic earnings per share:</b>                      |    |        |    |        |
| Continuing operations                                 | \$ | 0.51   | \$ | 0.49   |
| Discontinued operations                               |    | (0.02) |    | (0.01) |
| Net income                                            |    | 0.50   |    | 0.48   |
| Shares used in determining basic earnings per share   |    | 46,230 |    | 41,737 |
| <b>Diluted earnings per share:</b>                    |    |        |    |        |
| Continuing operations                                 | \$ | 0.51   | \$ | 0.48   |
| Discontinued operations                               |    | (0.02) |    | (0.01) |
| Net income                                            |    | 0.49   |    | 0.48   |
| Shares used in determining diluted earnings per share |    | 46,875 |    | 42,521 |

See Notes to Consolidated Condensed Financial Statements

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

|                                                                                       | Three Months Ended March<br>31, |                     |
|---------------------------------------------------------------------------------------|---------------------------------|---------------------|
|                                                                                       | 2005<br>(Restated)*             | 2004<br>(Restated)* |
|                                                                                       | (Unaudited)                     |                     |
|                                                                                       | (In thousands)                  |                     |
| <b>Operating Activities:</b>                                                          |                                 |                     |
| Net income                                                                            | \$ 22,892                       | \$ 20,204           |
| Adjustments to reconcile net income to net cash from continuing operating activities: |                                 |                     |
| Depreciation and amortization                                                         | 10,273                          | 8,240               |
| Amortization of unearned compensation                                                 | 600                             | 412                 |
| Undistributed earnings of equity method investments                                   | (444)                           | (85)                |
| Loss from discontinued operations, net of tax                                         | 872                             | 321                 |
| Minority interests                                                                    | 143                             | 320                 |
| Changes in operating assets and liabilities:                                          |                                 |                     |
| Accounts receivable                                                                   | (12,672)                        | (8,920)             |
| Inventories                                                                           | (32,974)                        | (97,520)            |
| Floor plan notes payable                                                              | 14,432                          | 53,572              |
| Accounts payable and accrued expenses                                                 | 28,318                          | 24,013              |
| Other                                                                                 | 15,865                          | 4,582               |
| <br>Net cash from continuing operating activities                                     | <br>47,305                      | <br>5,139           |
| <br><b>Investing Activities:</b>                                                      |                                 |                     |
| Purchase of equipment and improvements                                                | (49,060)                        | (48,363)            |
| Proceeds from sale-leaseback transactions                                             | 40,708                          | 3,750               |
| Dealership acquisitions, net                                                          | (31,015)                        | (2,534)             |
| <br>Net cash from continuing investing activities                                     | <br>(39,367)                    | <br>(47,147)        |
| <br><b>Financing Activities:</b>                                                      |                                 |                     |
| Proceeds from borrowings under U.S. Credit Agreement                                  | 75,000                          | 42,000              |
| Repayments under U.S. Credit Agreement                                                | (31,800)                        | (116,000)           |
| Net repayments of other long-term debt                                                | (16,169)                        | (5,394)             |
| Net borrowings (repayments) of floor plan notes payable non-trade                     | (15,088)                        | 8,166               |
| Proceeds from issuance of common stock                                                | 571                             | 122,707             |
| Dividends                                                                             | (5,076)                         | (4,149)             |
| <br>Net cash from continuing financing activities                                     | <br>7,438                       | <br>47,330          |



|                                                      |           |           |
|------------------------------------------------------|-----------|-----------|
| Discontinued operations:                             |           |           |
| Net cash from discontinued operating activities      | (9,889)   | (3,557)   |
| Net cash from discontinued investing activities      | (303)     | 574       |
| Net cash from discontinued financing activities      | (468)     | 354       |
| <br>                                                 |           |           |
| Net cash from discontinued operations                | (10,660)  | (2,629)   |
| <br>                                                 |           |           |
| Net increase (decrease) in cash and cash equivalents | 4,716     | 2,693     |
| Cash and cash equivalents, beginning of period       | 15,187    | 13,901    |
| <br>                                                 |           |           |
| Cash and cash equivalents, end of period             | \$ 19,903 | \$ 16,594 |

**Supplemental disclosures of cash flow information:**

|                      |           |           |
|----------------------|-----------|-----------|
| Cash paid for:       |           |           |
| Interest             | \$ 31,278 | \$ 31,383 |
| Income taxes         | 4,416     | 713       |
| Seller Financed debt | 5,300     |           |

See Notes to Consolidated Condensed Financial Statements

\* See Note 1

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY**  
**AND COMPREHENSIVE INCOME (LOSS)**

|                                             | Common Stock Issued |        | Additional Paid-In Capital | Retained Earnings | Unearned Compensation (Unaudited) | Accumulated Other Comprehensive Income (Loss) | Total Stockholders Equity | Comprehensive Income (loss) |
|---------------------------------------------|---------------------|--------|----------------------------|-------------------|-----------------------------------|-----------------------------------------------|---------------------------|-----------------------------|
|                                             | Shares              | Amount | Capital                    | Earnings          | Compensation (Unaudited)          | (Loss)                                        | Equity                    | (loss)                      |
| (Dollars in thousands)                      |                     |        |                            |                   |                                   |                                               |                           |                             |
| Balances, January 1, 2005                   | 46,482,604          | \$ 5   | \$ 716,273                 | \$ 305,881        | \$ (4,587)                        | \$ 57,463                                     | \$ 1,075,035              | \$                          |
| Restricted stock                            | 2,800               |        | 197                        |                   | 403                               |                                               | 600                       |                             |
| Exercise of options                         | 28,308              |        | 673                        |                   |                                   |                                               | 673                       |                             |
| Fair value of interest rate swap agreements |                     |        |                            |                   |                                   | 2,039                                         | 2,039                     | 2,039                       |
| Foreign currency translation                |                     |        |                            |                   |                                   | (6,708)                                       | (6,708)                   | (6,708)                     |
| Dividends                                   |                     |        |                            | (5,076)           |                                   |                                               | (5,076)                   |                             |
| Net income                                  |                     |        |                            | 22,892            |                                   |                                               | 22,892                    | 22,892                      |
| Balances, March 31, 2005                    | 46,513,712          | \$ 5   | \$ 717,143                 | \$ 323,697        | \$ (4,184)                        | \$ 52,794                                     | \$ 1,089,455              | \$ 18,223                   |

See Notes to Consolidated Condensed Financial Statements

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(In thousands, except per share amounts)**

**1. Interim Financial Statements**

***Basis of Presentation***

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The information presented as of March 31, 2005 and December 31, 2004 and for the three month periods ended March 31, 2005 and 2004 is unaudited, but includes all adjustments which the management of United Auto Group, Inc. (the Company) believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements have been reclassified for entities which become discontinued operations during the nine months ended September 30, 2005. The results for the interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2004, which were included as part of the Company's Annual Report on Form 10-K/A.

The Company's parts and service departments provide preparation and reconditioning services for its dealerships new and used vehicle departments, for which the new and used vehicle departments are charged as if they were third parties. During 2004, the Company determined that revenue and cost of sales had not been reduced by the intracompany charge for such work performed by certain of the Company's dealerships. Accordingly, service and parts revenue and cost of sales have been reduced by approximately \$19,000 for the three months ended March 31, 2004. Service and parts revenue and cost of sales in 2005 do not include such intracompany charges. The eliminations do not have a material impact on service and parts revenue, gross profit, operating income, income from continuing operations, net income, earnings per share, cash flows, or financial position for any period.

***Balance Sheet and Cash Flows***

Subsequent to the issuance of the Company's March 31, 2005 financial statements, the Company's management determined that certain information in the Consolidated Condensed Balance Sheets and Consolidated Condensed Statements of Cash Flows should be restated and reclassified for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows. Floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, have been reclassified as floor plan notes payable non-trade on the Consolidated Condensed Balance Sheets, and related cash flows have been reclassified from operating activities to financing activities on the Consolidated Condensed Statement of Cash Flows. Consistent with industry practice, the Company previously reported all cash flow information relating to floor plan notes payable as operating cash flows. In addition, the Company has made certain additional changes within the Consolidated Condensed Statements of Cash Flows relating to cash flows from discontinued operations and activity under the U.S. Credit Agreement to conform to the presentation in its September 30, 2005 financial statements. A Summary of the significant effects of the restatement are as follows:

**Table of Contents**

|                                                                      | March 31,<br>2005               | December 31,<br>2004 |
|----------------------------------------------------------------------|---------------------------------|----------------------|
| Floor plan notes payable as previously reported                      | \$ 1,279,413                    | \$ 1,218,837         |
| Discontinued operations                                              | (39,895)                        | (21,297)             |
| Reclassification of floor plan notes payable non-trade               | (316,235)                       | (320,782)            |
| <br>                                                                 |                                 |                      |
| Reported floor plan notes payable                                    | \$ 923,283                      | \$ 876,758           |
| <br>                                                                 |                                 |                      |
| Floor plan notes payable non-trade as previously reported            | \$                              | \$                   |
| Reclassification of floor plan notes payable non-trade               | 316,235                         | 320,782              |
| <br>                                                                 |                                 |                      |
| Reported floor plan notes payable non-trade                          | \$ 316,235                      | \$ 320,782           |
| <br>                                                                 |                                 |                      |
|                                                                      | Three Months Ended March<br>31, |                      |
|                                                                      | 2005                            | 2004                 |
| Net cash from continuing operating activities as previously reported | \$ 26,209                       | \$ 9,033             |
| Discontinued operations                                              | 6,008                           | 4,272                |
| Reclassification of floor plan notes payable non-trade               | 15,088                          | (8,166)              |
| <br>                                                                 |                                 |                      |
| Reported net cash from continuing operating activities               | \$ 47,305                       | \$ 5,139             |
| <br>                                                                 |                                 |                      |
| Net cash from continuing financing activities as previously reported | \$ 22,526                       | \$ 39,164            |
| Discontinued operations                                              |                                 |                      |
| Reclassification of floor plan notes payable non-trade               | (15,088)                        | 8,166                |
| <br>                                                                 |                                 |                      |
| Reported net cash from continuing financing activities               | \$ 7,438                        | \$ 47,330            |

***Discontinued Operations***

The Company periodically sells or otherwise disposes of certain dealerships resulting in accounting for such dealerships as discontinued operations. Combined financial information regarding the dealerships accounted for as discontinued operations follows:

|                  | Three Months Ended March<br>31, |            |
|------------------|---------------------------------|------------|
|                  | 2005                            | 2004       |
| Revenues         | \$ 164,921                      | \$ 158,829 |
| Pre-tax loss     | (1,379)                         | (1,746)    |
| Gain on disposal |                                 | 1,222      |

**Table of Contents**

|                          | March 31,<br>2005 | December<br>31,<br>2004 |
|--------------------------|-------------------|-------------------------|
| Inventories              | \$ 107,524        | \$ 84,780               |
| Other assets             | 67,595            | 64,141                  |
| <br>                     |                   |                         |
| Total assets             | \$ 175,119        | \$ 148,921              |
| <br>                     |                   |                         |
| Floor plan notes payable | \$ 91,812         | \$ 78,178               |
| Other liabilities        | 15,680            | 14,375                  |
| <br>                     |                   |                         |
| Total Liabilities        | \$ 107,492        | \$ 92,553               |

The Company accounts for dispositions as discontinued operations when it is evident that the operations and cash flows of a franchise being disposed of will be eliminated from on-going operations and that the Company will not have any significant continuing involvement in its operations. In reaching the determination as to whether the cash flows of a dealership will be eliminated from ongoing operations, the Company considers whether it is likely that customers will migrate to similar franchises that it owns in the same geographic market. The Company's consideration includes an evaluation of the brands sold at the dealerships it operates in the market and their proximity to the disposed dealership. When the Company disposes of franchises, it typically does not have continuing brand representation in that market. If the franchise being disposed of is located in a complex of Company dealerships, the Company does not treat the disposition as a discontinued operation if the Company believes that the cash flows generated by the disposed franchise will be replaced by expanded operations of the remaining franchises.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include accounts receivable, inventories, income taxes, intangible assets and certain reserves.

**Intangible Assets**

The Company's principal intangible assets relate to its franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations.

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the three months ended March 31, 2005:

|                              | Goodwill     | Franchise<br>Value |
|------------------------------|--------------|--------------------|
| Balance January 1, 2005      | \$ 1,038,647 | \$ 183,084         |
| Additions during period      | 13,216       | 5,246              |
| Foreign currency translation | (3,539)      | (1,711)            |

|         |                |              |            |
|---------|----------------|--------------|------------|
| Balance | March 31, 2005 | \$ 1,048,324 | \$ 186,619 |
|---------|----------------|--------------|------------|

As of March 31, 2005, approximately \$610,126 of the Company's goodwill is deductible for tax purposes. The Company has established deferred tax liabilities related to the temporary differences arising from such tax deductible goodwill.

***Stock-Based Compensation***

Key employees, outside directors, consultants and advisors of the Company are eligible to receive stock-based compensation pursuant to the terms of the Company's 2002 Equity Compensation Plan (the "Plan"). The Plan provides for the issuance of up to 2,100 shares for stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and other awards. As of March 31, 2005, 1,770 shares of common stock were available for grant under the Plan.

**Table of Contents**

Pursuant to Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, the Company accounts for option grants using the intrinsic value method. All options have been granted with a strike price at fair market value on the date of grant. As a result, no compensation expense has been recorded in the consolidated condensed financial statements with respect to option grants. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure, an Amendment of SFAS No. 123. Had the Company elected to recognize compensation expense for option grants using the fair value method, pro forma net income and pro forma basic and diluted earnings per share would have been as follows:

|                                                                                             | Three Months Ended March<br>31, |           |
|---------------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                             | 2005                            | 2004      |
| Net income (1)                                                                              | \$ 22,892                       | \$ 20,204 |
| Fair value method compensation expense attributable to stock-based compensation, net of tax | 194                             | 341       |
| Pro forma net income                                                                        | \$ 22,698                       | \$ 19,863 |
| Basic earnings per share                                                                    | \$ 0.50                         | \$ 0.48   |
| Pro forma basic earnings per share                                                          | \$ 0.49                         | \$ 0.48   |
| Diluted earnings per share                                                                  | \$ 0.49                         | \$ 0.48   |
| Pro forma diluted earnings per share                                                        | \$ 0.48                         | \$ 0.47   |
| Weighted average fair value of options granted                                              | \$ 8.61                         | n/a       |
| Expected dividend yield                                                                     | 1.6%                            | n/a       |
| Risk free interest rates                                                                    | 4.00%                           | n/a       |
| Expected life                                                                               | 5.0 years                       | n/a       |
| Expected volatility                                                                         | 30.28%                          | n/a       |

(1) Includes approximately \$382 and \$259 of compensation expense, net of tax, related to restricted stock grants, for the three month periods ended March 31, 2005 and 2004, respectively.

***New Accounting Pronouncements***

The Financial Accounting Standards Board ( FASB ) issued SFAS No. 123R, Share-Based Payment, which replaces SFAS No. 123 Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R focuses primarily on accounting for share-based payment transactions relating to employee services, establishes accounting standards for equity instruments that an entity exchanges for goods or services, and addresses transactions where an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R will require the Company to expense the grant-date fair value of equity compensation awards over their vesting period. SFAS No. 123R is required to be adopted no later than January 1, 2006 and is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.



**Table of Contents****2. Inventories**

Inventories consisted of the following:

|                              | March 31,<br>2005 | December 31,<br>2004 |
|------------------------------|-------------------|----------------------|
| New vehicles                 | \$ 1,014,966      | \$ 956,131           |
| Used vehicles                | 255,979           | 236,929              |
| Parts, accessories and other | 63,336            | 59,298               |
| <br>                         |                   |                      |
| Total inventories            | \$ 1,334,281      | \$ 1,252,358         |

The Company receives non-refundable credits from certain of its vehicle manufacturers, which are treated as a reduction of cost of goods sold when the vehicles are sold. Such credits amounted to \$6,532 and \$7,204 during the three months ended March 31, 2005 and 2004, respectively.

**3. Business Combinations**

During the three months ended March 31, 2005, the Company acquired five automobile dealership franchises. The aggregate consideration paid in connection with the acquisitions amounted to approximately \$31,015 in cash and a seller financed note for \$5,300. The consolidated balance sheets include preliminary allocations of the purchase price relating to such acquisitions, resulting in the recognition of \$13,216 of goodwill and \$5,246 of franchise value. During the three months ended March 31, 2004, the Company acquired two automobile dealership franchises. The aggregate consideration paid in connection with such acquisitions amounted to approximately \$2,534 in cash. The Company's financial statements include the results of operations of the acquired dealerships from the date of acquisition.

The following unaudited consolidated pro forma results of operations of the Company for the three months ended March 31, 2005 and 2004 give effect to net acquisitions consummated during the respective periods as if they had occurred on January 1, 2004.

|                                     | Three Months Ended March 31, |              |
|-------------------------------------|------------------------------|--------------|
|                                     | 2005                         | 2004         |
| Revenues                            | \$ 2,498,808                 | \$ 2,262,515 |
| Income from continuing operations   | 23,823                       | 20,726       |
| Net income                          | 22,951                       | 20,405       |
| Net income per diluted common share | \$ 0.49                      | \$ 0.48      |

**4. Floor Plan Notes Payable Trade and Non-trade**

The Company finances the majority of its new and a portion of its used vehicle inventories under revolving floor plan notes payable with various lenders. In the U.S., the floor plan arrangements are due on demand; however, the Company is generally not required to make loan principal repayments prior to the sale of the vehicles financed. The Company typically makes monthly interest payments on the amount financed. In the U.K., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less. The floor plan agreements grant a security interest in substantially all of the assets of the Company's dealership subsidiaries. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in prime or LIBOR borrowing rates. The Company classifies floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles as floor plan notes payable non-trade on its Consolidated Condensed Balance Sheets.

**5. Earnings Per Share**

Basic earnings per share is computed using net income and weighted average shares outstanding. Diluted earnings per share is computed using net income and the weighted average shares outstanding, adjusted for the dilutive effect of stock options and restricted stock. As of March 31, 2005, 2 shares attributable to outstanding common stock equivalents were excluded from the calculation of diluted earnings per share because the effect of such securities was

antidilutive. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2005 and 2004 follows:

|                                                                              | Three Months Ended March<br>31, |        |
|------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                              | 2005                            | 2004   |
| Weighted average shares outstanding                                          | 46,230                          | 41,737 |
| Effect of stock options                                                      | 427                             | 534    |
| Effect of restricted stock                                                   | 218                             | 250    |
| <br>                                                                         |                                 |        |
| Weighted average shares outstanding, including effect of dilutive securities | 46,875                          | 42,521 |

**Table of Contents****6. Long Term Debt**

Long-term debt consisted of the following:

|                                           | March 31,<br>2005 | December<br>31,<br>2004 |
|-------------------------------------------|-------------------|-------------------------|
| U.S. Credit Agreement                     | \$ 298,000        | \$ 254,800              |
| U.K. Credit Agreement                     |                   | 16,836                  |
| 9.625% Senior Subordinated Notes due 2012 | 300,000           | 300,000                 |
| Other                                     | 9,370             | 14,701                  |
| <br>                                      |                   |                         |
| Total long-term debt                      | 607,370           | 586,337                 |
| Less: Current portion                     | 3,577             | 11,367                  |
| <br>                                      |                   |                         |
| Net long-term debt                        | \$ 603,793        | \$ 574,970              |

***U.S. Credit Agreement***

The Company is party to a credit agreement with DaimlerChrysler Services North America LLC and Toyota Motor Credit Corporation, as amended effective October 1, 2004 (the "U.S. Credit Agreement"), which provides for up to \$600,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, and for an additional \$50,000 of availability for letters of credit, through September 30, 2007. The revolving loans bear interest between defined LIBOR plus 2.60% and defined LIBOR plus 3.75%.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company's domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company's ability to dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity, a ratio of debt to EBITDA, a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders' equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2005, the Company was in compliance with all covenants under the U.S. Credit Agreement, and management believes the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and the Company's expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.S.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to the Company's other material indebtedness. Substantially all of the Company's domestic assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. Credit Agreement. As of March 31, 2005, outstanding borrowings and letters of credit under the U.S. Credit Agreement amounted to \$298,000 and \$34,500, respectively.

***U.K. Credit Agreement***

The Company's subsidiaries in the U.K. (the "U.K. Subsidiaries") are party to a credit agreement with the Royal Bank of Scotland dated February 28, 2003, as amended (the "U.K. Credit Agreement"), which provides for up to £65,000 in revolving and term loans to be used for acquisitions, working capital, and general corporate purposes. Revolving loans under the U.K. Credit Agreement have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.85% and defined LIBOR plus 1.25%. The U.K. Credit Agreement also



**Table of Contents**

provides for an additional seasonally adjusted overdraft line of credit up to a maximum of £15,000. Term loan capacity under the U.K. Credit Agreement was originally £10,000, which is reduced by £2,000 every six months. As of March 31, 2005, term loan capacity under the U.K. Credit Agreement amounted to £4,000. The remaining £55,000 of revolving loan capacity matures on March 31, 2007.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, the U.K. Subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. Credit Agreement, including: a measurement of net worth, a debt to capital ratio, an EBITDA to interest expense ratio, a measurement of maximum capital expenditures, a debt to EBITDA ratio, and a fixed charge coverage ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2005, the Company was in compliance with all covenants under the U.K. Credit Agreement, and management believes that the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and the Company's expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations. Substantially all of the U.K. Subsidiaries' assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. Credit Agreement. The U.K. Credit Agreement also has cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of the U.K. Subsidiaries. As of March 31, 2005, there were no outstanding borrowings under the U.K. Credit Agreement.

***Senior Subordinated Notes***

The Company has outstanding \$300,000 aggregate principal amount of 9.625% Senior Subordinated Notes due 2012 (the "Notes"). The Notes are unsecured senior subordinated notes and rank behind all existing and future senior debt, including debt under our credit agreements and floor plan indebtedness. The Notes are guaranteed by substantially all domestic subsidiaries on a senior subordinated basis. The Company can redeem all or some of the Notes at its option beginning in 2007 at specified redemption prices. Upon a change of control, each holder of Notes will be able to require the Company to repurchase all or some of the Notes at a redemption price of 101% of the principal amount of the Notes. The Notes also contain customary negative covenants and events of default. As of March 31, 2005, the Company was in compliance with all covenants and there were no events of default.

**7. Interest Rate Swaps**

The Company is party to an interest rate swap agreement through January 2008 pursuant to which a notional \$200,000 of its U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of the LIBOR based U.S. floor plan borrowings. As of March 31, 2005, the Company expects approximately \$4,500 of interest associated with the swap to be reclassified as a charge to income over the next twelve months.

**8. Commitments and Contingent Liabilities**

From time to time, the Company is involved in litigation relating to claims arising in the normal course of business. Such claims may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of March 31, 2005, the Company is not party to any legal proceeding, including class action lawsuits that, individually or in the aggregate, are expected to have a material adverse effect on the Company's results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's results of operations, financial condition or cash flows.

In connection with an acquisition of dealerships completed in October 2000, the Company agreed to make a contingent payment in cash to the extent 841 shares of common stock issued as consideration for the acquisition are sold subsequent to the fifth anniversary of the transaction and have a market value of less than \$12.00 per share at the

time of sale. The Company will be forever released from this guarantee in the event the average daily closing price of its common stock for any 90 day period subsequent to the fifth anniversary of the transaction exceeds \$12.00 per share. In the event the Company is required to make a payment relating to this guarantee, such payment would result in the revaluation of the common stock issued in the transaction, resulting in a reduction of additional paid-in-capital. The Company has further granted the seller a put option pursuant to which the Company may be required to repurchase a maximum of 108 shares for \$12.00 per share on each of the first five anniversary dates of the transaction. To date, no payments have been made relating to the put option. As of March 31, 2005, the maximum of future cumulative cash payments that the Company may be required to make in connection with the put option amounted to \$1,300.

The Company has entered into an agreement with a third party to jointly acquire and manage dealerships in Indiana, Illinois, Ohio, North Carolina and South Carolina. With respect to any joint venture relationship established pursuant to this agreement, the Company is required to

**Table of Contents**

repurchase its partner's interest at the end of the five-year period following the date of formation of the joint venture relationship. Pursuant to this arrangement, the Company entered into a joint venture agreement with respect to the Honda of Mentor dealership. The Company is required to repurchase its partner's interest in this joint venture relationship in July 2008. The Company expects this payment to be approximately \$2,700.

The Company typically leases its dealership facilities and corporate offices under non-cancelable operating lease agreements with expiration dates through 2035, including all option periods available to the Company. The Company's lease arrangements typically allow for a base term with options for extension in the Company's favor and include escalation clauses tied to the Consumer Price Index.

**9. Consolidating Condensed Financial Information**

The following tables include consolidating condensed financial information as of March 31, 2005 and December 31, 2004 and for the three month periods ended March 31, 2005 and 2004 for United Auto Group, Inc. (as the issuer of the Notes), wholly-owned subsidiary guarantors, non-wholly owned subsidiary guarantors, and non-guarantor subsidiaries (primarily representing foreign entities). The consolidating condensed financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations and cash flows of these entities on a stand-alone basis.

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Balance Sheet**  
**(Unaudited)**  
**March 31, 2005**  
**(Restated)**

|                                    | Total<br>Company    | Eliminations          | Non-Wholly Owned Guarantor<br>Subsidiaries |                           |                                                |                                 |                                     |                              |                                   |
|------------------------------------|---------------------|-----------------------|--------------------------------------------|---------------------------|------------------------------------------------|---------------------------------|-------------------------------------|------------------------------|-----------------------------------|
|                                    |                     |                       | United<br>Auto<br>Group, Inc.              | Guarantor<br>Subsidiaries | HBL<br>LLC<br>(Unaudited)<br>(In<br>Thousands) | UAG<br>Connecticut<br>I,<br>LLC | UAG<br>Mentor<br>Acquisition<br>LLC | UAG<br>Central<br>NJ,<br>LLC | Non-<br>Guarantor<br>Subsidiaries |
| Cash and cash equivalents          | \$ 19,903           | \$                    | \$ 8,928                                   | \$ 1,755                  | \$                                             | \$ 1,147                        | \$                                  | \$ 812                       | \$ 7,261                          |
| Accounts receivable, net           | 380,849             | (35,670)              | 35,670                                     | 233,456                   | 7,589                                          | 5,751                           | 2,126                               | 882                          | 131,045                           |
| Inventories, net                   | 1,334,281           |                       |                                            | 809,360                   | 31,864                                         | 30,598                          | 7,989                               | 2,949                        | 451,521                           |
| Other current assets               | 56,651              |                       | 4,255                                      | 24,890                    | 689                                            | 15                              | 2                                   | 2                            | 26,798                            |
| Assets of discontinued operations  | 175,119             |                       |                                            | 165,017                   |                                                |                                 |                                     |                              | 10,102                            |
| <b>Total current assets</b>        | <b>1,966,803</b>    | <b>(35,670)</b>       | <b>48,853</b>                              | <b>1,234,478</b>          | <b>40,142</b>                                  | <b>37,511</b>                   | <b>10,117</b>                       | <b>4,645</b>                 | <b>626,727</b>                    |
| Property and equipment, net        | 409,330             |                       | 4,124                                      | 239,464                   | 6,351                                          | 3,349                           | 1,818                               | 3,809                        | 150,415                           |
| Intangible assets                  | 1,234,943           |                       |                                            | 858,992                   | 68,281                                         | 20,738                          | 3,722                               |                              | 283,210                           |
| Other assets                       | 55,387              | (1,009,727)           | 1,038,672                                  | 6,235                     | 9                                              | 157                             |                                     |                              | 20,041                            |
| <b>Total Assets</b>                | <b>\$ 3,666,463</b> | <b>\$ (1,045,397)</b> | <b>\$ 1,091,649</b>                        | <b>\$ 2,339,169</b>       | <b>\$ 114,783</b>                              | <b>\$ 61,755</b>                | <b>\$ 15,657</b>                    | <b>\$ 8,454</b>              | <b>\$ 1,080,393</b>               |
| Floor plan notes payable           | \$ 923,283          | \$                    | \$                                         | \$ 575,089                | \$ 13,522                                      | \$ 13,892                       | \$ 6,638                            | \$                           | \$ 314,142                        |
| Floor plan notes payable non-trade | 316,235             |                       |                                            | 201,847                   | 12,087                                         | 14,435                          |                                     | 2,678                        | 85,188                            |
| Accounts payable                   | 252,471             |                       | 1,798                                      | 100,347                   | 6,208                                          | 1,631                           | 599                                 | 2,452                        | 139,436                           |



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|                                                  |                     |                       |                     |                     |                   |                  |                  |                 |                     |
|--------------------------------------------------|---------------------|-----------------------|---------------------|---------------------|-------------------|------------------|------------------|-----------------|---------------------|
| Accrued expenses                                 | 189,997             | (35,670)              | 396                 | 33,827              | 25,590            | 11,948           | 2,056            | 134             | 151,716             |
| Current portion of long-term debt                | 3,577               |                       |                     | 3,577               |                   |                  |                  |                 |                     |
| Liabilities of discontinued operations           | 107,492             |                       |                     | 101,035             |                   |                  |                  |                 | 6,457               |
| <b>Total current liabilities</b>                 | <b>1,793,055</b>    | <b>(35,670)</b>       | <b>2,194</b>        | <b>1,015,722</b>    | <b>57,407</b>     | <b>41,906</b>    | <b>9,293</b>     | <b>5,264</b>    | <b>696,939</b>      |
| Long-term debt                                   | 603,793             |                       |                     | 369,536             | 63,151            | 21,361           | 3,842            | 3,130           | 142,773             |
| Other long-term liabilities                      | 180,160             |                       |                     | 164,228             | 10,966            | 992              | 3,593            | 18              | 363                 |
| <b>Total liabilities</b>                         | <b>2,577,008</b>    | <b>(35,670)</b>       | <b>2,194</b>        | <b>1,549,486</b>    | <b>131,524</b>    | <b>64,259</b>    | <b>16,728</b>    | <b>8,412</b>    | <b>840,075</b>      |
| Total stockholders equity                        | 1,089,455           | (1,009,727)           | 1,089,455           | 789,683             | (16,741)          | (2,504)          | (1,071)          | 42              | 240,318             |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 3,666,463</b> | <b>\$ (1,045,397)</b> | <b>\$ 1,091,649</b> | <b>\$ 2,339,169</b> | <b>\$ 114,783</b> | <b>\$ 61,755</b> | <b>\$ 15,657</b> | <b>\$ 8,454</b> | <b>\$ 1,080,393</b> |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Balance Sheet**  
**(Unaudited)**  
**December 31, 2004**  
**(Restated)**

|                                    | Total<br>Company    | Eliminations          | Non-Wholly Owned Guarantor<br>Subsidiaries |                           |                                                |                                 |                                     |                              |                                   |
|------------------------------------|---------------------|-----------------------|--------------------------------------------|---------------------------|------------------------------------------------|---------------------------------|-------------------------------------|------------------------------|-----------------------------------|
|                                    |                     |                       | United<br>Auto<br>Group, Inc.              | Guarantor<br>Subsidiaries | HBL<br>LLC<br>(Unaudited)<br>(In<br>Thousands) | UAG<br>Connecticut<br>I,<br>LLC | UAG<br>Mentor<br>Acquisition<br>LLC | UAG<br>Central<br>NJ,<br>LLC | Non-<br>Guarantor<br>Subsidiaries |
| Cash and cash equivalents          | \$ 15,187           | \$                    | \$ 13,638                                  | \$                        | \$                                             | \$ 1,424                        | \$ 125                              | \$                           | \$                                |
| Accounts receivable, net           | 356,625             | (34,404)              | 34,404                                     | 240,005                   | 10,463                                         | 5,441                           | 2,505                               | 588                          | 97,623                            |
| Inventories, net                   | 1,252,358           |                       |                                            | 745,643                   | 26,085                                         | 31,523                          | 5,085                               | 2,996                        | 441,026                           |
| Other current assets               | 44,315              |                       | 4,589                                      | 22,064                    | 547                                            | 12                              | 4                                   |                              | 17,099                            |
| Assets of discontinued operations  | 148,921             |                       |                                            | 139,644                   |                                                |                                 |                                     |                              | 9,277                             |
| <b>Total current assets</b>        | <b>1,817,406</b>    | <b>(34,404)</b>       | <b>52,631</b>                              | <b>1,147,356</b>          | <b>37,095</b>                                  | <b>38,400</b>                   | <b>7,719</b>                        | <b>3,584</b>                 | <b>565,025</b>                    |
| Property and equipment, net        | 406,783             |                       | 3,788                                      | 230,909                   | 6,041                                          | 2,417                           | 1,815                               | 3,813                        | 158,000                           |
| Intangible assets                  | 1,221,731           |                       |                                            | 830,837                   | 68,281                                         | 20,738                          | 3,722                               |                              | 298,153                           |
| Other assets                       | 86,881              | (984,847)             | 1,023,923                                  | 31,773                    | 9                                              | 234                             |                                     |                              | 15,789                            |
| <b>Total Assets</b>                | <b>\$ 3,532,801</b> | <b>\$ (1,019,251)</b> | <b>\$ 1,080,342</b>                        | <b>\$ 2,240,875</b>       | <b>\$ 111,426</b>                              | <b>\$ 61,789</b>                | <b>\$ 13,256</b>                    | <b>\$ 7,397</b>              | <b>\$ 1,036,967</b>               |
| <br>                               |                     |                       |                                            |                           |                                                |                                 |                                     |                              |                                   |
| Floor plan notes payable           | \$ 876,758          | \$                    | \$                                         | \$ 542,331                | \$ 9,867                                       | \$ 14,423                       | \$ 4,779                            | \$                           | \$ 305,358                        |
| Floor plan notes payable non-trade | 320,782             |                       |                                            | 221,852                   | 12,461                                         | 13,816                          |                                     | 2,495                        | 70,158                            |
| Accounts payable                   | 213,851             |                       | 5,186                                      | 90,852                    | 6,873                                          | 1,819                           | 321                                 | 1,430                        | 107,370                           |

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|                                                  |                     |                       |                     |                     |                   |                  |                  |                 |                     |
|--------------------------------------------------|---------------------|-----------------------|---------------------|---------------------|-------------------|------------------|------------------|-----------------|---------------------|
| Accrued expenses                                 | 188,381             | (34,404)              | 121                 | 43,578              | 24,695            | 11,637           | 1,921            | 259             | 140,574             |
| Current portion of long-term debt                | 11,367              |                       |                     | 938                 |                   |                  |                  |                 | 10,429              |
| Liabilities of discontinued operations           | 92,553              |                       |                     | 86,710              |                   |                  |                  |                 | 5,843               |
| <b>Total current liabilities</b>                 | <b>1,703,692</b>    | <b>(34,404)</b>       | <b>5,307</b>        | <b>986,261</b>      | <b>53,896</b>     | <b>41,695</b>    | <b>7,021</b>     | <b>4,184</b>    | <b>639,732</b>      |
| Long-term debt                                   | 574,970             |                       |                     | 327,042             | 63,151            | 21,361           | 3,842            | 3,021           | 156,553             |
| Other long-term liabilities                      | 179,104             |                       |                     | 163,315             | 10,946            | 1,028            | 3,386            | 58              | 371                 |
| <b>Total liabilities</b>                         | <b>2,457,766</b>    | <b>(34,404)</b>       | <b>5,307</b>        | <b>1,476,618</b>    | <b>127,993</b>    | <b>64,084</b>    | <b>14,249</b>    | <b>7,263</b>    | <b>796,656</b>      |
| Total stockholders equity                        | 1,075,035           | (984,847)             | 1,075,035           | 764,257             | (16,567)          | (2,295)          | (993)            | 134             | 240,311             |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 3,532,801</b> | <b>\$ (1,019,251)</b> | <b>\$ 1,080,342</b> | <b>\$ 2,240,875</b> | <b>\$ 111,426</b> | <b>\$ 61,789</b> | <b>\$ 13,256</b> | <b>\$ 7,397</b> | <b>\$ 1,036,967</b> |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Three Months Ended March 31, 2005**

|                                                                                     | Non-Wholly Owned Guarantor<br>Subsidiaries |             |                                  |                           |                                                |                              |                              |             |                                   |
|-------------------------------------------------------------------------------------|--------------------------------------------|-------------|----------------------------------|---------------------------|------------------------------------------------|------------------------------|------------------------------|-------------|-----------------------------------|
|                                                                                     | Total<br>Company                           | Elimination | United<br>Auto<br>Group,<br>Inc. | Guarantor<br>Subsidiaries | HBL<br>LLC<br>(Unaudited)<br>(In<br>Thousands) | UAG                          |                              |             | Non-<br>Guarantor<br>Subsidiaries |
| UAG<br>Connecticut<br>I,<br>LLC                                                     |                                            |             |                                  |                           |                                                | Mentor<br>Acquisition<br>LLC | UAG<br>Central<br>NJ,<br>LLC |             |                                   |
| Total revenues                                                                      | \$ 2,492,117                               | \$          | \$                               | \$ 1,528,343              | \$ 52,016                                      | \$ 34,407                    | \$ 12,231                    | \$ 5,634    | \$ 859,486                        |
| Total cost of sales                                                                 | 2,113,549                                  |             |                                  | 1,292,871                 | 41,217                                         | 28,441                       | 10,610                       | 4,989       | 735,421                           |
| Gross profit                                                                        | 378,568                                    |             |                                  | 235,472                   | 10,799                                         | 5,966                        | 1,621                        | 645         | 124,065                           |
| Selling, general, and administrative expenses                                       | 305,645                                    |             | 3,196                            | 193,004                   | 9,364                                          | 5,062                        | 1,320                        | 679         | 93,020                            |
| Depreciation and amortization                                                       | 10,273                                     |             | 255                              | 6,198                     | 228                                            | 108                          | 49                           | 67          | 3,368                             |
| Operating income (loss)                                                             | 62,650                                     |             | (3,451)                          | 36,270                    | 1,207                                          | 796                          | 252                          | (101)       | 27,677                            |
| Floor plan interest expense                                                         | (13,280)                                   |             |                                  | (8,690)                   | (222)                                          | (278)                        | (49)                         | (23)        | (4,018)                           |
| Other interest expense                                                              | (11,481)                                   |             |                                  | (7,117)                   | (911)                                          | (297)                        | (278)                        | (113)       | (2,765)                           |
| Equity in earnings of subsidiaries                                                  |                                            | (55,844)    | 55,844                           |                           |                                                |                              |                              |             |                                   |
| Income (loss) from continuing operations before minority interests and income taxes | 37,889<br>(143)                            | (55,844)    | 52,393                           | 20,463<br>(154)           | 74<br>(4)                                      | 221<br>(25)                  | (75)                         | (237)<br>40 | 20,894                            |

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|                                               |           |             |           |           |       |       |         |         |           |
|-----------------------------------------------|-----------|-------------|-----------|-----------|-------|-------|---------|---------|-----------|
| Minority interests                            |           |             |           |           |       |       |         |         |           |
| Income taxes                                  | (13,982)  | 24,588      | (23,069)  | (8,887)   | (33)  | (97)  | 33      | 104     | (6,621)   |
| Income (loss) from continuing operations      | 23,764    | (31,256)    | 29,324    | 11,422    | 37    | 99    | (42)    | (93)    | 14,273    |
| Loss from discontinued operations, net of tax | (872)     |             |           | (740)     |       |       |         |         | (132)     |
| Net income (loss)                             | \$ 22,892 | \$ (31,256) | \$ 29,324 | \$ 10,682 | \$ 37 | \$ 99 | \$ (42) | \$ (93) | \$ 14,141 |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Three Months Ended March 31, 2004**

|                                                                                                       | Total<br>Company | Eliminations | United<br>Auto<br>Group,<br>Inc. | Guarantor<br>Subsidiaries | Non-Wholly Owned Guarantor<br>Subsidiaries     |                  |                                     | Non-<br>Guarantor<br>Subsidiaries |
|-------------------------------------------------------------------------------------------------------|------------------|--------------|----------------------------------|---------------------------|------------------------------------------------|------------------|-------------------------------------|-----------------------------------|
|                                                                                                       |                  |              |                                  |                           | HBL<br>LLC<br>(Unaudited)<br>(In<br>Thousands) | UAG<br>I,<br>LLC | UAG<br>Mentor<br>Acquisition<br>LLC |                                   |
| Total revenues                                                                                        | \$ 2,199,862     | \$           | \$                               | \$ 1,379,176              | \$ 57,049                                      | \$ 38,304        | \$ 12,280                           | \$ 713,053                        |
| Total cost of<br>sales                                                                                | 1,874,415        |              |                                  | 1,171,197                 | 47,319                                         | 32,372           | 10,755                              | 612,772                           |
| Gross profit                                                                                          | 325,447          |              |                                  | 207,979                   | 9,730                                          | 5,932            | 1,525                               | 100,281                           |
| Selling, general,<br>and<br>administrative<br>expenses                                                | 259,651          |              | 2,860                            | 170,282                   | 7,936                                          | 4,747            | 1,280                               | 72,546                            |
| Depreciation<br>and amortization                                                                      | 8,240            |              | 268                              | 5,331                     | 250                                            | 120              | 51                                  | 2,220                             |
| Operating<br>income (loss)                                                                            | 57,556           |              | (3,128)                          | 32,366                    | 1,544                                          | 1,065            | 194                                 | 25,515                            |
| Floor plan<br>interest expense                                                                        | (12,725)         |              |                                  | (9,822)                   | (181)                                          | (142)            | (35)                                | (2,545)                           |
| Other interest<br>expense                                                                             | (10,765)         |              |                                  | (7,087)                   | (579)                                          | (166)            | (255)                               | (2,678)                           |
| Equity in<br>earnings of<br>subsidiaries                                                              |                  | (37,318)     | 37,318                           |                           |                                                |                  |                                     |                                   |
| Income<br>(loss) from<br>continuing<br>operations<br>before minority<br>interests and<br>income taxes | 34,066           | (37,318)     | 34,190                           | 15,457                    | 784                                            | 757              | (96)                                | 20,292                            |
| Minority<br>interests                                                                                 | (320)            |              |                                  | (212)                     | (37)                                           | (71)             |                                     |                                   |
| Income taxes                                                                                          | (13,221)         | 19,890       | (18,223)                         | (7,997)                   | (418)                                          | (403)            | 51                                  | (6,121)                           |

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|                                                        |           |             |           |          |        |        |         |           |
|--------------------------------------------------------|-----------|-------------|-----------|----------|--------|--------|---------|-----------|
| Income<br>(loss) from<br>continuing<br>operations      | 20,525    | (17,428)    | 15,967    | 7,248    | 329    | 283    | (45)    | 14,171    |
| Loss from<br>discontinued<br>operations, net<br>of tax | (321)     |             |           | (249)    |        |        |         | (72)      |
| Net income<br>(loss)                                   | \$ 20,204 | \$ (17,428) | \$ 15,967 | \$ 6,999 | \$ 329 | \$ 283 | \$ (45) | \$ 14,099 |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Cash Flows**  
**(Unaudited)**  
**Three Months Ended March 31, 2005**  
**(Restated)**

|                                                                            | Total<br>Company | United<br>Auto<br>Group,<br>Inc. | Guarantor<br>Subsidiaries | HBL<br>LLC<br>(Unaudited)<br>(In Thousands) | Non-Wholly Owned Guarantor<br>Subsidiaries |                                     |                              | Non-<br>Guarantor<br>Subsidiaries |
|----------------------------------------------------------------------------|------------------|----------------------------------|---------------------------|---------------------------------------------|--------------------------------------------|-------------------------------------|------------------------------|-----------------------------------|
|                                                                            |                  |                                  |                           |                                             | UAG<br>Connecticut<br>I,<br>LLC            | UAG<br>Mentor<br>Acquisition<br>LLC | UAG<br>Central<br>NJ,<br>LLC |                                   |
| Net cash from<br>continuing operating<br>activities                        | \$ 47,305        | \$ (4,119)                       | \$ 54,635                 | \$ 1,121                                    | \$ 407                                     | \$ (34)                             | \$ 583                       | \$ (5,288)                        |
| Investing Activities:                                                      |                  |                                  |                           |                                             |                                            |                                     |                              |                                   |
| Purchase of<br>equipment and<br>improvements                               | (49,060)         | (591)                            | (27,200)                  | (538)                                       | (2,916)                                    | (52)                                | (63)                         | (17,700)                          |
| Proceeds from sale -<br>leaseback<br>transactions                          | 40,708           |                                  | 19,064                    |                                             | 1,876                                      |                                     |                              | 19,768                            |
| Dealership<br>acquisitions, net                                            | (31,015)         |                                  | (28,555)                  |                                             |                                            |                                     |                              | (2,460)                           |
| Net cash from<br>continuing investing<br>activities                        | (39,367)         | (591)                            | (36,691)                  | (538)                                       | (1,040)                                    | (52)                                | (63)                         | (392)                             |
| Financing Activities:                                                      |                  |                                  |                           |                                             |                                            |                                     |                              |                                   |
| Net borrowings<br>(repayments) of<br>long-term debt                        | 27,031           | 4,505                            | 34,397                    |                                             |                                            |                                     | 109                          | (11,980)                          |
| Net borrowings<br>(repayments) of<br>Floor plan notes<br>payable non-trade | (15,088)         |                                  | (30,546)                  | (374)                                       | 619                                        |                                     | 183                          | 15,030                            |
| Proceeds from<br>issuance of common<br>stock                               | 571              | 571                              |                           |                                             |                                            |                                     |                              |                                   |
| Distributions from<br>(to) parent<br>Dividends                             | (5,076)          | (5,076)                          | 511                       | (209)                                       | (263)                                      | (39)                                |                              |                                   |



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|                                                      |           |          |          |       |          |       |        |          |
|------------------------------------------------------|-----------|----------|----------|-------|----------|-------|--------|----------|
| Net cash from continuing financing activities        | 7,438     |          | 4,362    | (583) | 356      | (39)  | 292    | 3,050    |
| Net cash from discontinued operations                | (10,660)  |          | (20,551) |       |          |       |        | 9,891    |
| Net increase (decrease) in cash and cash equivalents | 4,716     | (4,710)  | 1,755    |       | (277)    | (125) | 812    | 7,261    |
| Cash and cash equivalents, beginning of period       | 15,187    | 13,638   |          |       | 1,424    | 125   |        |          |
| Cash and cash equivalents, end of period             | \$ 19,903 | \$ 8,928 | \$ 1,755 | \$    | \$ 1,147 | \$    | \$ 812 | \$ 7,261 |

**Table of Contents**

**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Cash Flows**  
**(Unaudited)**  
**Three Months Ended March 31, 2004**  
**(Restated)**

|                                                                   | Non-Wholly Owned Guarantor<br>Subsidiaries |                               |                           |                                                |                                     |         |                                   |
|-------------------------------------------------------------------|--------------------------------------------|-------------------------------|---------------------------|------------------------------------------------|-------------------------------------|---------|-----------------------------------|
|                                                                   |                                            |                               |                           | UAG<br>Connecticut<br>I,<br>LLC                | UAG<br>Mentor<br>Acquisition<br>LLC |         | Non-<br>Guarantor<br>Subsidiaries |
|                                                                   | Total<br>Company                           | United<br>Auto<br>Group, Inc. | Guarantor<br>Subsidiaries | HBL<br>LLC<br>(Unaudited)<br>(In<br>Thousands) |                                     |         |                                   |
| Net cash from continuing operating activities                     | \$ 5,139                                   | \$ 5,231                      | \$ 37,035                 | \$ 517                                         | \$ 444                              | \$ 974  | \$ (39,062)                       |
| Investing Activities:                                             |                                            |                               |                           |                                                |                                     |         |                                   |
| Purchase of equipment and improvements                            | (48,363)                                   | (139)                         | (13,014)                  | (7,103)                                        | (126)                               | (21)    | (27,960)                          |
| Proceeds from sale - leaseback transactions                       | 3,750                                      |                               | 3,750                     |                                                |                                     |         |                                   |
| Dealership acquisitions, net                                      | (2,534)                                    |                               | (2,097)                   |                                                |                                     |         | (437)                             |
| Net cash from continuing investing activities                     | (47,147)                                   | (139)                         | (11,361)                  | (7,103)                                        | (126)                               | (21)    | (28,397)                          |
| Financing Activities:                                             |                                            |                               |                           |                                                |                                     |         |                                   |
| Net borrowings (repayments) of long-term debt                     | (79,394)                                   | (118,558)                     | 3,414                     | 6,783                                          |                                     |         | 28,967                            |
| Net borrowings (repayments) of Floor plan notes payable non-trade | 8,166                                      |                               | 326                       | (170)                                          | 637                                 | (1,040) | 8,413                             |
| Proceeds from issuance of common stock                            | 122,707                                    | 122,707                       |                           |                                                |                                     |         |                                   |
| Distributions from (to) parent                                    |                                            |                               | (23,336)                  | (1,273)                                        | (393)                               | 2       | 25,000                            |
| Dividends                                                         | (4,149)                                    | (4,149)                       |                           |                                                |                                     |         |                                   |

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|                                                      |           |           |          |         |          |         |          |
|------------------------------------------------------|-----------|-----------|----------|---------|----------|---------|----------|
| Net cash from continuing financing activities        | 47,330    |           | (19,596) | 5,340   | 244      | (1,038) | 62,380   |
| Net cash from discontinued operations                | (2,629)   |           | (6,362)  |         |          |         | 3,733    |
| Net increase (decrease) in cash and cash equivalents | 2,693     | 5,092     | (284)    | (1,246) | 562      | (85)    | (1,346)  |
| Cash and cash equivalents, beginning of period       | 13,901    | 6,571     | 1,099    | 1,246   | 644      | 85      | 4,256    |
| Cash and cash equivalents, end of period             | \$ 16,594 | \$ 11,663 | \$ 815   | \$      | \$ 1,206 | \$      | \$ 2,910 |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward looking statements as a result of various factors. See Forward Looking Statements.*

Subsequent to the issuance of the Company's March 31, 2005 financial statements, the Company's management determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated and reclassified for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows. Floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, have been reclassified as floor plan notes payable non-trade on the Consolidated Balance Sheets, and related cash flows have been reclassified from operating activities to financing activities on the Consolidated Statement of Cash Flows. Consistent with industry practice, the Company previously reported all cash flow information relating to floor plan notes payable as operating cash flows. In addition, the Company has made certain additional changes relating to cash flows from discontinued operations and activity under the U.S. Credit Agreement to conform to the presentation in its September 30, 2005 financial statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated for the effects of the restatement and for the effects of restating our financial statements for entities which became discontinued operations during the nine months ended September 30, 2005.

**Overview**

We are the second largest automotive retailer in the United States as measured by total revenues. As of March 31, 2005, we owned and operated 149 franchises in the United States and 100 franchises internationally, primarily in the United Kingdom. We offer a full range of vehicle brands. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher margin products, such as third party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products.

New vehicle revenues include sales to retail customers and to leasing companies providing consumer automobile leasing. Used vehicle revenues include amounts received for used vehicles sold to retail customers, leasing companies providing consumer automobile leasing and other dealers. We generate finance and insurance revenues from sales of third-party extended service contracts and other third-party insurance policies, as well as from fees for facilitating the sale of third-party finance and lease contracts and certain other products. Service and parts revenues include fees paid for repair and maintenance service, the sale of replacement parts, the sale of aftermarket accessories and collision repairs.

We and Sirius Satellite Radio Inc. (Sirius) have agreed to jointly promote Sirius Satellite Radio service. Pursuant to the terms of our arrangement with Sirius, our domestic dealerships endeavor to order a significant percentage of eligible vehicles with a factory installed Sirius radio. We and Sirius have also agreed to jointly market the Sirius service under a best efforts arrangement. Our costs relating to such marketing initiatives are expensed as incurred. As compensation for our efforts, we received warrants to purchase ten million shares of Sirius common stock at \$2.392 per share that are earned ratably on an annual basis through January 2009. Two million of these warrants were earned in 2004 and vested in the first quarter of 2005. We exercised the warrants and sold the underlying stock we received upon vesting. The earning of these warrants may accelerate based on us attaining specified subscription targets. Since we can reasonably estimate the number of warrants that will be earned pursuant to the ratable schedule, the estimated fair value (based on current fair value) of those warrants is being recognized ratably during each annual period. We also received an additional ten million warrants to purchase Sirius common stock at \$2.392 per share which are earned upon our sale of certain units pertaining to specified brands. We measure the fair value of the warrants earned ratably on the date they are earned as there are no significant disincentives for non-performance. Since we cannot reasonably estimate the number of warrants that will be earned subject to the sale of certain units pertaining to specified brands, the fair value of those warrants is only being recognized when they are earned. The value of Sirius stock has been and is expected to be subject to significant fluctuations, which may result in variability in the amount we earn under this arrangement. The warrants may be cancelled if certain performance targets are not met or upon the termination of our arrangement. We may not be able to achieve any of the performance targets outlined in the warrants.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, and service and parts. Our gross profit generally varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as seasonality, weather, cyclicalities and manufacturers' advertising and incentives may impact the mix of our revenues, and therefore influence our gross profit margin.

Our selling expenses consist of advertising and compensation for sales personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, rent, insurance, utilities and other outside services. A significant portion of our selling expenses are variable, and a significant portion of our general and administrative expenses are subject to our control, allowing us to adjust them over time to reflect economic trends.

Floor plan interest expense relates to indebtedness incurred in connection with the acquisition of new and used vehicle inventories. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing.

We have acquired a number of dealerships each year since our inception. Each of these acquisitions has been accounted for using the purchase method of accounting. As a result, our financial statements include the results of operations of the acquired dealerships from the date of acquisition.

The future success of our business will likely be dependent on, among other things, our ability to consummate and integrate acquisitions, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealerships, and the success of our international operations. See Forward-Looking Statements.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing judgments. Such judgments influence the assets, liabilities, revenues and expenses in our financial statements. Management, on an ongoing basis, reviews these estimates and assumptions. Management may determine that modifications in assumptions and estimates are required, which may result in a material change in our results of operations or financial position.

Following are the accounting policies applied in the preparation of our financial statements that management believes are most dependent upon the use of estimates and assumptions.

#### ***Revenue Recognition***

##### ***Vehicle, Parts and Service Sales***

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is performed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of sales at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as earned.

##### ***Finance and Insurance Sales***

We arrange financing for customers through various financial institutions and receive a commission from the lender equal to either the difference between the interest rates charged to customers and the interest rates set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we receive may be charged back to us based on the relevant terms of the contracts. The revenue we record relating to commissions is net of an estimate of the ultimate amount of chargebacks we will be required to pay. Such estimate of chargeback exposure is based on our historical chargeback experience arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products.

#### ***Intangible Assets***

Our principal intangible assets relate to our franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations. Intangible assets other than goodwill are required to be amortized over their estimated useful lives. We believe the franchise values of our dealerships have an indefinite life based on the following facts:

Automotive retailing is a mature industry and is based on franchise agreements with the vehicle manufacturers;

There are no known changes or events that would alter the automotive retailing franchise environment;

Certain franchise agreement terms are indefinite;

Franchise agreements that have limited terms have historically been renewed without substantial cost;

Our history shows that manufacturers have not terminated franchise agreements.

#### ***Impairment Testing***

Intangible assets are reviewed for impairment on at least an annual basis. Franchise value impairment is assessed through a comparison of the net book value of our franchises with their estimated fair value. If the carrying value of a franchise exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess. We also evaluate the remaining useful life of our franchises in connection with the annual impairment testing to determine whether events and circumstances continue to support an indefinite useful life. Goodwill impairment is assessed at the

reporting unit level. If the carrying amount of the goodwill attributable to a reporting unit is determined to exceed its estimated fair value, an impairment loss is recognized in an amount equal to that excess. The fair value of the goodwill attributable to our reporting units is determined using a discounted cash flow approach, which includes assumptions regarding revenue and profitability growth, residual values and our cost of capital. If future events and circumstances cause significant changes in the underlying assumptions which result in a reduction of our estimates of fair value, we may incur an impairment charge.

**Table of Contents*****Investments***

Investments include marketable securities and investments in businesses accounted for under the equity method. Marketable securities include investments in debt and equity securities. Marketable securities held by us are typically classified as available for sale and are stated at fair value in our balance sheet with unrealized gains and losses included in other comprehensive income, a separate component of stockholders' equity. Declines in investment values that are deemed to be other than temporary would result in an impairment charge reducing the investments' carrying value to fair value. A majority of our investments are in joint venture relationships that are more fully described in Joint Venture Relationships below. Such joint venture relationships are accounted for under the equity method, pursuant to which we record our proportionate share of the joint venture's income each period.

***Self-Insurance***

We retain risk relating to certain of our general liability insurance, workers' compensation insurance and employee medical benefits in the United States. As a result, we are likely to be responsible for a majority of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum exposure limits for certain insurance periods. The majority of losses, if any, above the pre-determined exposure limits are paid by third-party insurance carriers. Our estimate of future losses is prepared by management using our historical loss experience and industry based development factors.

***Income Taxes***

Tax regulations may require items to be included in our tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses which are not deductible on our tax return, and some are timing differences, such as the timing of depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax effect in our financial statements. Deferred tax liabilities generally represent expenses recognized in our financial statements for which payment has been deferred or deductions taken on our tax return which have not yet been recognized as expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit.

***New Accounting Pronouncements***

The Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment, which replaces SFAS No. 123 Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R focuses primarily on accounting for share-based payment transactions relating to employee services, establishes accounting standards for equity instruments that an entity exchanges for goods or services, and addresses transactions where an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R will require us to expense the grant-date fair value of equity compensation awards over their vesting period. SFAS No. 123R is required to be adopted no later than January 1, 2006 and is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

***Results of Operations***

The following tables present comparative financial data relating to our operating performance in the aggregate and on a same store basis. Dealership results are only included in same store comparisons when we have consolidated the entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2004, the results of the acquired entity would be included in quarterly same store comparisons beginning with the second quarter of 2005 and in annual same store comparisons beginning with 2006.



**Table of Contents**

**Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004 (dollars in millions, except per unit amounts)**

| <b>Total Retail Data</b>              | 2005 vs. 2004 |           |          |          |
|---------------------------------------|---------------|-----------|----------|----------|
|                                       | 2005          | 2004      | Change   | % Change |
| Total retail unit sales               | 64,492        | 59,953    | 4,539    | 7.6%     |
| Total same store retail unit sales    | 57,406        | 59,178    | (1,772)  | (3.0%)   |
| Total retail sales revenue            | \$2,281.5     | \$2,018.7 | \$ 262.8 | 13.0%    |
| Total same store retail sales revenue | \$2,005.2     | \$1,991.7 | \$ 13.5  | 0.7%     |
| Total retail gross profit             | \$ 377.6      | \$ 324.2  | \$ 53.4  | 16.5%    |
| Total same store retail gross profit  | \$ 331.7      | \$ 319.6  | \$ 12.1  | 3.8%     |
| Total retail gross margin             | 16.6%         | 16.1%     | 0.5%     | 3.1%     |
| Total same store retail gross margin  | 16.5%         | 16.0%     | 0.5%     | 3.1%     |

**Units**

Retail data includes retail new vehicle, retail used vehicle, finance and insurance and service and parts transactions. Retail unit sales of vehicles increased by 4,539 units, or 7.6%, from 2004 to 2005. The increase is due to a 6,311 unit increase from net dealership acquisitions during the period, offset by a 1,772 unit, or 3.0%, decrease in same store retail unit sales. The same store decrease is due to a decline in retail unit sales at our premium and domestic brand dealerships, offset in part by growth in our volume foreign brands.

**Revenues**

Retail sales revenue increased \$262.8 million, or 13.0%, from 2004 to 2005. The increase is due to a \$249.3 million increase from net dealership acquisitions during the period, coupled with a \$13.5 million, or 0.7%, increase in same store revenues. The same store revenue increase is due to (1) a \$631, or 2.0%, increase in average new vehicle revenue per unit, which increased revenue by \$23.9 million, (2) a \$1,054, or 4.4%, increase in average used vehicle revenue per unit, which increased revenue by \$20.6 million, (3) a \$15.6 million, or 7.0%, increase in service and parts revenues, and (4) a \$68, or 8.1%, increase in average finance and insurance revenue per unit, which increased revenue by \$3.9 million, all offset by the 3.0% decrease in retail unit sales which decreased revenue by \$50.5 million.

**Gross Profit**

Retail gross profit increased \$53.4 million, or 16.5%, from 2004 to 2005. The increase is due to a \$41.3 million increase from net dealership acquisitions during the period coupled with a \$12.1 million, or 3.8%, increase in same store retail gross profit. The same store retail gross profit increase is due to (1) a \$42, or 1.5%, increase in average gross profit per new vehicle retailed, which increased retail gross profit by \$1.6 million, (2) a \$236, or 11.1%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by \$4.6 million, (3) a \$7.8 million, or 6.4%, increase in service and parts gross profit, and (4) a \$68, or 8.1%, increase in average finance and insurance revenue per unit which increased retail gross profit by \$3.9 million, all offset by the 3.0% decrease in retail unit sales which decreased retail gross profit by \$5.6 million.

**Table of Contents**

| <b>New Vehicle Data</b>                                  | 2005 vs. 2004 |            |          |          |
|----------------------------------------------------------|---------------|------------|----------|----------|
|                                                          | 2005          | 2004       | Change   | % Change |
| New retail unit sales                                    | 42,747        | 39,179     | 3,568    | 9.1%     |
| Same store new retail unit sales                         | 37,905        | 38,741     | (836)    | (2.2%)   |
| New retail sales revenue                                 | \$ 1,402.8    | \$ 1,244.3 | \$ 158.5 | 12.7%    |
| Same store new retail sales revenue                      | \$ 1,226.8    | \$ 1,229.4 | \$ (2.6) | (0.2%)   |
| New retail sales revenue per unit                        | \$ 32,816     | \$ 31,759  | \$ 1,057 | 3.3%     |
| Same store new retail sales revenue per unit             | \$ 32,365     | \$ 31,734  | \$ 631   | 2.0%     |
| Gross profit new                                         | \$ 122.7      | \$ 107.1   | \$ 15.6  | 14.6%    |
| Same store gross profit new                              | \$ 104.8      | \$ 105.5   | \$ (0.7) | (0.7%)   |
| Average gross profit per new vehicle retailed            | \$ 2,869      | \$ 2,733   | \$ 136   | 5.0%     |
| Same store average gross profit per new vehicle retailed | \$ 2,765      | \$ 2,723   | \$ 42    | 1.5%     |
| Gross margin % new                                       | 8.7%          | 8.6%       | 0.1%     | 1.2%     |
| Same store gross margin % new                            | 8.5%          | 8.6%       | (0.1%)   | (1.2%)   |

**Units**

Retail unit sales of new vehicles increased 3,568 units, or 9.1%, from 2004 to 2005. The increase is due to a 4,404 unit increase from net dealership acquisitions during the period, offset in part by an 836 unit, or 2.2%, decrease in same store retail unit sales. The same store decrease is due to a decline at our premium and domestic brand dealerships, offset in part by growth in our volume foreign brands.

**Revenues**

New vehicle retail sales revenue increased \$158.5 million, or 12.7%, from 2004 to 2005. The increase is due to a \$161.1 million increase from net dealership acquisitions during the period offset by a \$2.6 million, or 0.2%, decrease in same store revenues. The same store revenue decrease is due to the 2.2% decrease in retail unit sales, which decreased revenue by \$26.5 million, offset by a \$631, or 2.0%, increase in comparative average selling prices per unit, which increased revenue by \$23.9 million.

**Gross Profit**

Retail gross profit from new vehicle sales increased \$15.6 million, or 14.6%, from 2004 to 2005. The increase is due to a \$16.3 million increase from net dealership acquisitions during the period, offset by a \$0.7 million, or 0.7%, decrease in same store gross profit. The same store decrease is due to the 2.2% decrease in new retail unit sales, which decreased gross profit by \$2.3 million, offset by a \$42, or 1.5%, increase in average gross profit per new vehicle retailed, which increased gross profit by \$1.6 million.

**Table of Contents**

| <b>Used Vehicle Data</b>                                  | 2005 vs. 2004 |          |          |          |
|-----------------------------------------------------------|---------------|----------|----------|----------|
|                                                           | 2005          | 2004     | Change   | % Change |
| Used retail unit sales                                    | 21,745        | 20,774   | 971      | 4.7%     |
| Same store used retail unit sales                         | 19,501        | 20,437   | (936)    | (4.6%)   |
| Used retail sales revenue                                 | \$ 549.9      | \$ 497.9 | \$ 52.0  | 10.4%    |
| Same store used retail sales revenue                      | \$ 488.3      | \$ 490.2 | \$ (1.9) | (0.4%)   |
| Used retail sales revenue per unit                        | \$25,289      | \$23,967 | \$1,322  | 5.5%     |
| Same store used retail sales revenue per unit             | \$25,040      | \$23,986 | \$1,054  | 4.4%     |
| Gross profit used                                         | \$ 51.0       | \$ 44.2  | \$ 6.8   | 15.4%    |
| Same store gross profit used                              | \$ 46.1       | \$ 43.5  | \$ 2.6   | 6.0%     |
| Average gross profit per used vehicle retailed            | \$ 2,347      | \$ 2,127 | \$ 220   | 10.3%    |
| Same store average gross profit per used vehicle retailed | \$ 2,364      | \$ 2,128 | \$ 236   | 11.1%    |
| Gross margin % used                                       | 9.3%          | 8.9%     | 0.4%     | 4.5%     |
| Same store gross margin % used                            | 9.4%          | 8.9%     | 0.5%     | 5.6%     |

**Units**

Retail unit sales of used vehicles increased 971 units, or 4.7%, from 2004 to 2005. The increase is due to a 1,907 unit increase from net dealership acquisitions during the period, offset by a 936 unit, or 4.6%, decrease in same store used retail unit sales. We believe that the same store decrease was due in part to the continued challenging used vehicle market in all brands in the U.S. during the first quarter of 2005, based in part on the relative affordability of new vehicles due to continued incentive spending by certain manufacturers.

**Revenues**

Used vehicle retail sales revenue increased \$52.0 million, or 10.4%, from 2004 to 2005. The increase is due to a \$53.9 million increase from net dealership acquisitions during the period, offset in part by a \$1.9 million, or 0.4%, decrease in same store revenues. The same store revenue decrease is due to the 4.6% decrease in retail unit sales, which decreased revenue by \$22.5 million, offset by a \$1,054, or 4.4%, increase in comparative average selling prices per vehicle which increased revenue by \$20.6 million.

**Gross Profit**

Retail gross profit from used vehicle sales increased \$6.8 million, or 15.4%, from 2004 to 2005. The increase is due to a \$4.2 million increase from net dealership acquisitions during the period, coupled with a \$2.6 million, or 6.0%, increase in same store gross profit. The increase in same store gross profit is due to a \$236, or 11.1%, increase in average gross profit per used vehicle retailed, which increased gross profit by \$4.6 million, offset by the 4.6% decrease in used retail unit sales, which decreased gross profit by \$2.0 million.

**Table of Contents****Finance and Insurance Data**

|                                                   | 2005    | 2004    | 2005 vs. 2004 |          |
|---------------------------------------------------|---------|---------|---------------|----------|
|                                                   |         |         | Change        | % Change |
| Total retail unit sales                           | 64,492  | 59,953  | 4,539         | 7.6%     |
| Total same store retail unit sales                | 57,406  | 59,178  | (1,772)       | (3.0%)   |
| Finance and insurance revenue                     | \$ 56.3 | \$ 49.7 | \$ 6.6        | 13.3%    |
| Same store finance and insurance revenue          | \$ 51.9 | \$ 49.5 | \$ 2.4        | 4.9%     |
| Finance and insurance revenue per unit            | \$ 873  | \$ 830  | \$ 43         | 5.2%     |
| Same store finance and insurance revenue per unit | \$ 904  | \$ 836  | \$ 68         | 8.1%     |

Finance and insurance revenue increased \$6.6 million, or 13.3%, from 2004 to 2005. The increase is due to a \$4.2 million increase from net dealership acquisitions during the period, coupled with a \$2.4 million, or 4.9%, increase in same store revenues. The same store revenue increase is due to a \$68, or 8.1%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$3.9 million, offset by the 3.0% decrease in retail unit sales, which decreased revenue by \$1.5 million. Approximately \$20 of the \$68 increase in comparative average finance and insurance revenue per unit was due to our Sirius Satellite Radio promotion agreement.

**Service and Parts Data**

|                                      | 2005    | 2004    | 2005 vs. 2004 |          |
|--------------------------------------|---------|---------|---------------|----------|
|                                      |         |         | Change        | % Change |
| Service and parts revenue            | \$272.5 | \$226.8 | \$45.7        | 20.1%    |
| Same store service and parts revenue | \$238.2 | \$222.6 | \$15.6        | 7.0%     |
| Gross profit                         | \$147.6 | \$123.2 | \$24.4        | 19.8%    |
| Same store gross profit              | \$128.9 | \$121.1 | \$ 7.8        | 6.4%     |
| Gross margin                         | 54.2%   | 54.3%   | (0.1%)        | (0.2%)   |
| Same store gross margin              | 54.1%   | 54.4%   | (0.3%)        | (0.6%)   |

**Revenues**

Service and parts revenue increased \$45.7 million, or 20.1%, from 2004 to 2005. The increase is due to a \$30.1 million increase from net dealership acquisitions during the period coupled with a \$15.6 million, or 7.0%, increase in same store revenues. We believe that our service and parts business is being positively impacted by the growth in total retail unit sales at our dealerships in recent years, enhancements of the length of warranty programs offered by certain manufacturers and capacity increases in our service and parts operations resulting from our facility improvement and expansion programs.

**Gross Profit**

Service and parts gross profit increased \$24.4 million, or 19.8%, from 2004 to 2005. The increase is due to a \$16.6 million increase from net dealership acquisitions during the period coupled with a \$7.8 million, or 6.4%, increase in same store gross profit. The same store gross profit increase is due to the \$15.6 million, or 7.0%, increase in revenues, which increased gross profit by \$8.4 million, offset by a 0.6% decrease in gross margin, which decreased gross profit by \$0.6 million.

**Selling, General and Administrative**

Selling, general and administrative SG&A expenses increased \$45.9 million, or 17.7%, from \$259.7 million to \$305.6 million. The aggregate increase is primarily due to a \$33.3 million increase from net dealership acquisitions during the period coupled with a \$12.6 million, or 4.9%, increase in same store SG&A. The increase in same store SG&A is due in large part to a net increase in variable selling expenses, including increases in variable compensation as a result of the 3.8% increase in retail gross profit over the prior year, coupled with increased rent and other costs. SG&A expenses increased as a percentage of total revenue from 11.8% to 12.3% and increased as a percentage of gross profit from 79.8% to 80.7%.



## **Table of Contents**

### **Depreciation and Amortization**

Depreciation and amortization increased \$2.1 million, or 24.7%, from \$8.2 million to \$10.3 million. The increase is due to a \$1.0 million increase from net dealership acquisitions during the period coupled with a \$1.1 million, or 14.4% increase in same store depreciation and amortization. The same store increase is due in large part to our facility improvement and expansion program.

### **Floor Plan Interest Expense**

Floor plan interest expense increased \$0.6 million, or 4.4%, from \$12.7 million to \$13.3 million. The increase is due to a \$1.4 million increase from net dealership acquisitions during the period, offset by a \$0.8 million, or 6.1%, decrease in same store floor plan interest expense. The same store decrease is primarily due to a decrease in our weighted average borrowing rate during 2005 compared to 2004, due in large part to the impact of our interest rate swaps.

### **Other Interest Expense**

Other interest expense increased \$0.7 million, or 6.6%, from \$10.8 million to \$11.5 million. The increase is due primarily to an increase in our weighted average borrowing rate during 2005 versus 2004, offset in part by a decrease in outstanding indebtedness in 2005 versus 2004.

### **Income Taxes**

Income taxes increased \$0.8 million, or 5.8%, from \$13.2 million to \$14.0 million. The increase is due primarily to an increase in pre-tax income compared with 2004, offset in part by a reduction in our effective rate resulting from an increase in the relative proportion of our income from our U.K. operations, which are taxed at a lower rate.

### **Liquidity and Capital Resources**

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new dealerships, the improvement and expansion of existing facilities, the construction of new facilities and dividends. Historically, these cash requirements have been met through cash flow from operations, borrowings under our credit agreements and floor plan arrangements, the issuance of debt securities, sale-leaseback transactions and the issuance of equity securities. As of March 31, 2005, we had working capital of \$173.7 million, including \$19.9 million of cash available to fund the Company's operations and capital commitments. In addition, we had \$267.5 million and £74.0 million (\$142.0 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, which are each discussed below.

We paid a cash dividend on our common stock on March 1, 2005 of eleven cents per share. On April 19, 2005, we declared a cash dividend on our common stock of eleven cents per share payable on June 1, 2005 to shareholders of record on May 10, 2005. Future quarterly or other cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions on any then existing indebtedness and other factors considered relevant by our Board of Directors.

We have grown primarily from acquisitions of automotive dealerships. We believe that our cash flow from operating activities and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our operations and commitments for the next twelve months. To the extent we pursue additional significant acquisitions, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional bank borrowings. We may not have sufficient availability under our credit agreements to finance significant additional acquisitions. In certain circumstances, a public equity offering could require the prior approval of certain automobile manufacturers. There is no assurance that we would be able to access the capital markets or increase our borrowing capabilities on terms acceptable to us, if at all.

### **Inventory Financing**

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. In the U.S., the floor plan arrangements are due on demand; however, we are generally not required to make loan principal repayments prior to the sale of the vehicles financed. We typically make monthly interest payments on the amount financed. In the U.K., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less. The floor plan agreements grant a security interest in substantially all of the assets of our automotive dealership subsidiaries. Interest rates under the floor plan

arrangements are variable and increase or decrease based on changes in prime or LIBOR borrowing rates. Total outstanding borrowings under floor plan arrangements amounted to \$1,239.5 million as of March 31, 2005, of which \$350.5 million related to inventory held by our U.K. subsidiaries.

***U.S. Credit Agreement***

We are party to a credit agreement with DaimlerChrysler Services North America LLC and Toyota Motor Credit Corporation, as amended effective October 1, 2004 (the "U.S. Credit Agreement"), which provides for up to \$600.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, and for an additional \$50.0 million of availability for letters of credit, through September 30, 2007. The revolving loans bear interest between defined LIBOR plus 2.60% and defined LIBOR plus 3.75%.

**Table of Contents**

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity, a ratio of debt to EBITDA, a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders' equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2005, we were in compliance with all covenants under the U.S. Credit Agreement, and management believes the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and the expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.S.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. Credit Agreement. As of March 31, 2005, outstanding borrowings and letters of credit under the U.S. Credit Agreement amounted to \$298.0 million and \$34.5 million, respectively.

***U.K. Credit Agreement***

Our subsidiaries in the U.K. (the "U.K. Subsidiaries") are party to a credit agreement with the Royal Bank of Scotland dated February 28, 2003, as amended (the "U.K. Credit Agreement"), which provides for up to £65.0 million in revolving and term loans to be used for acquisitions, working capital, and general corporate purposes. Revolving loans under the U.K. Credit Agreement have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.85% and defined LIBOR plus 1.25%. The U.K. Credit Agreement also provides for an additional seasonally adjusted overdraft line of credit up to a maximum of £15.0 million. Term loan capacity under the U.K. Credit Agreement was originally £10.0 million, which is reduced by £2.0 million every six months. As of March 31, 2005, term loan capacity under the U.K. Credit Agreement amounted to £4.0 million. The remaining £55.0 million of revolving loan capacity matures on March 31, 2007.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, the U.K. Subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. Credit Agreement, including: a measurement of net worth, a debt to capital ratio, an EBITDA to interest expense ratio, a measurement of maximum capital expenditures, a debt to EBITDA ratio, and a fixed charge coverage ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2005, we were in compliance with all covenants under the U.K. Credit Agreement, and management believes that the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and the expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations. Substantially all of the U.K. Subsidiaries' assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. Credit Agreement. The U.K. Credit Agreement also has cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of the U.K. Subsidiaries. As of March 31, 2005, there were no outstanding borrowings under the U.K. Credit Agreement.

***Senior Subordinated Notes***



We have outstanding \$300.0 million aggregate principal amount of 9.625% Senior Subordinated Notes due 2012 (the Notes). The Notes are unsecured senior subordinated notes and rank behind all existing and future senior debt, including debt under our credit agreements and floor plan indebtedness. The Notes are guaranteed by substantially all of our domestic subsidiaries on a senior subordinated basis. We can redeem all or some of the Notes at our option beginning in 2007 at specified redemption prices. Upon a change of control, each holder of Notes will be able to require us to repurchase all or some of the Notes at a redemption price of 101% of the principal amount of the Notes. The Notes also contain customary negative covenants and events of default. As of March 31, 2005 we were in compliance with all covenants and there were no events of default.

***Interest Rate Swaps***

We are party to an interest rate swap agreement through January 2008 pursuant to which a notional \$200.0 million of our U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of the LIBOR based U.S. floor plan borrowings. As of March 31, 2005, we expect approximately \$4.5 million of interest associated with the swap to be reclassified as a charge to income over the next twelve months.

**Table of Contents*****Other Financing Arrangements***

In the past, we have entered into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and leasehold improvements to a third-party and agree to lease those assets back for a certain period of time. We believe we will continue to utilize these types of transactions in the future. Such sales generate proceeds which vary from period to period.

**Cash Flows**

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. Historically, we reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity. We have reclassified floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-trade, and have reclassified related cash flows as a financing activity to comply with the guidance under Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. As a result, the Consolidated Statement of Cash Flows has been restated, resulting in a \$15.1 million increase in cash flows from continuing operating activities and a corresponding decrease in cash flows from continuing financing activities for the three months ended March 31, 2005 and an \$8.2 million decrease in cash flows from continuing operating activities and a corresponding increase in cash flows from continuing financing activities for the three months ended March 31, 2005.

Cash and cash equivalents increased by \$4.7 million and \$2.7 million during the three months ended March 31, 2005 and 2004, respectively. The major components of these changes are discussed below.

***Cash Flows from Continuing Operating Activities***

Cash provided by operating activities was \$47.3 million and \$5.1 million during the three months ended March 31, 2005 and 2004, respectively. Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. In 2005, operating cash flows includes \$10.5 million as a result of the net sale of two million shares of Sirius Satellite Radio common stock. We acquired these shares by exercising two million warrants earned throughout 2004 under our agreement with Sirius Satellite Radio.

We believe that changes in aggregate floor plan liabilities are directly linked to changes in vehicle inventory and therefore, are an integral part of understanding changes in our working capital and operating cash flow. Consequently, we have provided below a reconciliation of cash flow from operating activities as reported in our Consolidated Condensed Statement of Cash Flows as if all changes in vehicle floor plan were classified as an operating activity.

|                                                                                      | Three Months Ended March<br>31, |           |
|--------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                      | 2005                            | 2004      |
| Net cash from continuing operating activities as reported                            | \$ 47,305                       | \$ 5,139  |
| Floor plan notes payable non-trade as reported                                       | (15,088)                        | 8,166     |
| Net cash from continuing operating activities including all floor plan notes payable | \$ 32,217                       | \$ 13,305 |

***Cash Flows from Continuing Investing Activities***

Cash used in investing activities was \$39.4 million and \$47.1 million during the three months ended March 31, 2005 and 2004, respectively. Cash flows from investing activities consist primarily of cash used for capital expenditures, proceeds from sale-leaseback transactions and net expenditures for dealership acquisitions. Capital expenditures were \$49.1 million and \$48.4 million during the three months ended March 31, 2005 and 2004, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. Proceeds from sale-leaseback transactions were \$40.7 million and \$3.8 million during the three months ended March 31, 2005 and 2004, respectively. Cash used in business acquisitions, net of cash acquired, was \$31.0 million and \$2.5 million during the three months ended March 31, 2005 and 2004, respectively.

***Cash Flows from Continuing Financing Activities***

Cash provided by financing activities was \$7.4 million and \$47.3 million during the three months ended March 31, 2005 and 2004, respectively. Cash flows from financing activities include net borrowings or repayments of long-term debt, net borrowings or repayments of floor plan notes payable non-trade, proceeds from the issuance of common stock, including proceeds from the exercise of stock options, and dividends. We had net borrowings of long-term debt of \$27.0 million during the three months ended March 31, 2005 and net repayments of long-term debt of \$79.4 million during the three months ended March 31, 2004. We had net repayments of floor plan notes payable non-trade of \$15.1 million during the three months ended March 31, 2005 and net borrowings of floor plan notes payable non-trade of \$8.2 million the three months ended March 31, 2004. During the three months ended March 31, 2005 and 2004 we received proceeds of \$0.6 million and \$122.7 million, respectively from the issuance of common stock. During the three months ended March 31, 2005 and 2004, we paid \$5.1 million and \$4.1 million, respectively, of cash dividends to our stockholders.

**Table of Contents*****Commitments***

In connection with an acquisition of dealerships completed in October 2000, we agreed to make a contingent payment in cash to the extent 841,476 shares of common stock issued as consideration for the acquisition are sold subsequent to the fifth anniversary of the transaction and have a market value of less than \$12.00 per share at the time of sale. We will be forever released from this guarantee in the event the average daily closing price of our common stock for any 90 day period subsequent to the fifth anniversary of the transaction exceeds \$12.00 per share. In the event we are required to make a payment relating to this guarantee, such payment would result in the revaluation of the common stock issued in the transaction, resulting in a reduction of additional paid-in-capital. We have further granted the seller a put option pursuant to which we may be required to repurchase no more than 108,333 shares for \$12.00 per share on each of the first five anniversary dates of the transaction. To date, no payments have been made by us relating to the put option. As of March 31, 2005, the maximum of future cumulative cash payments we may be required to make in connection with the put option amounted to \$1.3 million.

We have entered into an agreement with a third-party to jointly acquire and manage dealerships in Indiana, Illinois, Ohio, North Carolina and South Carolina. With respect to any joint venture relationship established pursuant to this agreement, we are required to repurchase our partner's interest at the end of the five-year period following the date of formation of the joint venture relationship. Pursuant to this arrangement, we entered into a joint venture agreement with respect to our Honda of Mentor dealership in Ohio. We are required to repurchase our partners' interest in this joint venture in July 2008. We expect this payment to be approximately \$2.7 million.

**Related Party Transactions*****Stockholders Agreement***

Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 41% of our outstanding stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui) own approximately 15% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for one director who is a representative of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2014, upon the mutual consent of the parties or when either party no longer owns any of our common stock.

***Mitsui Transaction***

On March 26, 2004, we sold an aggregate of 4,050,000 shares of common stock to Mitsui for \$119,435, or \$29.49 per share. Proceeds from the sale were used for general corporate purposes, which included reducing outstanding indebtedness under our credit agreements.

***Other Related Party Interests***

James A. Hislop, one of our directors, is the President, Chief Executive Officer and a managing member of Penske Capital Partners, a director of Penske Corporation and a managing director of Transportation Resource Partners, an organization which undertakes investments in transportation related industries. Roger S. Penske also is a managing member of Penske Capital Partners and Transportation Resource Partners. Richard J. Peters, one of our directors, is a director of Penske Corporation and a managing director of Transportation Resource Partners. Eustace W. Mita and Lucio A. Noto (two of our directors) are investors in Transportation Resource Partners. One of our board members, Mr. Hiroshi Ishikawa, serves as our Executive Vice President - International Business Development and serves in a similar capacity for Penske Corporation. Robert H. Kurnick, Jr., our Executive Vice President and General Counsel, is also the President and a director of Penske Corporation and Paul F. Walters, our Executive Vice President - Human Resources serves in a similar human resources capacity for Penske Corporation.

**Table of Contents****Other Transactions**

We are currently a tenant under a number of non-cancelable lease agreements with Automotive Group Realty, LLC and Automotive Group Realty II, LLC (together "AGR"), wholly-owned subsidiaries of Penske Corporation. From time to time we may sell AGR real property and improvements which are subsequently leased by AGR to us. The sale of each parcel of property is valued at a price which is independently confirmed by a third party appraiser. We did not sell any property to AGR during the three months ended March 31, 2005.

We sometimes pay and/or receive fees to/from Penske Corporation and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others behalf. Payments made relating to services rendered reflect the provider's cost or an amount mutually agreed upon by both parties, which we believe represent terms at least as favorable as those that could be obtained from an unaffiliated third party negotiated on an arm's length basis.

We are currently a tenant under a number of non-cancelable lease agreements with Samuel X. DiFeo and members of his family. Mr. DiFeo is our President and Chief Operating Officer. We believe that the terms of these transactions are at least as favorable as those that could be obtained from an unaffiliated third party negotiated on an arm's length basis.

In February 2005, we acquired a 7% interest in a mobile vehicle washing company in exchange for \$2.4 million. Transportation Resource Partners, an organization discussed above under "Other Related Party Interests," simultaneously acquired a controlling interest in this company on the same financial terms as our investment. On April 29, 2005, we acquired a 23% interest in a provider of outsourced vehicle management solutions in exchange for \$4.5 million. Transportation Resource Partners simultaneously acquired a controlling interest in this company on the same financial terms as our investment. We and several other investors, including Transportation Resource Partners, entered into a stockholders agreement relating to this investment which, among other things, provides us with specified management rights and rights to purchase additional shares and restricts our ability to transfer shares. We have also entered into a management agreement which provides that we and other investors (or their affiliates) are to be provided ongoing management fees.

We have entered into joint ventures with certain related parties as more fully discussed below.

**Joint Venture Relationships**

From time to time we enter into joint venture relationships in the ordinary course of business, pursuant to which we operate dealerships together with other investors. We may also provide these subsidiaries with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of March 31, 2005 our joint venture relationships are as follows:

| <b>Location</b>         | <b>Dealerships</b>                     | <b>Ownership Interest</b> |
|-------------------------|----------------------------------------|---------------------------|
| Fairfield, Connecticut  | Mercedes-Benz, Audi, Porsche           | 92.90%(A)                 |
| Edison, New Jersey      | Ferrari                                | 70.00%                    |
|                         | Mercedes-Benz, Maybach, Audi, Porsche, |                           |
| Tysons Corner, Virginia | Aston Martin,                          | 90.00%(B)                 |
| Las Vegas, Nevada       | Ferrari, Maserati                      | 50.00%                    |
| Mentor, Ohio            | Honda                                  | 70.00%                    |
| Munich, Germany         | BMW                                    | 50.00%                    |
| Frankfurt, Germany      | Lexus, Toyota                          | 50.00%                    |
| Mexico                  | Toyota                                 | 48.70%                    |
| Mexico                  | Toyota                                 | 45.00%                    |

(A) An entity controlled by one of our directors, Lucio

A. Noto (the Investor ), owns a 7.1% interest in this joint venture which entitles the Investor to 20% of the operating profits of the joint venture. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) Roger S. Penske, Jr. owns a 10% interest in this joint venture.

**Cyclicality**

Unit sales of motor vehicles, particularly new vehicles, historically have been cyclical, fluctuating with general economic cycles. During economic downturns, the automotive retailing industry tends to experience similar periods of decline and recession as the general economy. We believe that the industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, fuel prices, interest rates and credit availability.

## **Table of Contents**

### **Seasonality**

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for cars and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where dealerships may be subject to severe winters. The greatest U.S. seasonality exists at the dealerships we operate in northeastern and upper mid-western states, for which the second and third quarters are the strongest with respect to vehicle-related sales. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K. The service and parts business at all dealerships experiences relatively modest seasonal fluctuations.

### **Effects of Inflation**

We believe that inflation rates over the last few years have not had a significant impact on revenues or profitability. We do not expect inflation to have any near-term material effects on the sale of our products and services. However, there can be no assurance that there will be no such effect in the future.

We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on the prime rate or LIBOR. Such rates have historically increased during periods of increasing inflation.

### **Forward Looking Statements**

This quarterly report on Form 10-Q/A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, plan, estimate, predict, potential, forecast, continue or variations of such of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

our future financial performance;

future acquisitions;

future capital expenditures;

our ability to obtain cost savings and synergies;

our ability to respond to economic cycles;

trends in the automotive retail industry and in the general economy in the various countries in which we operate dealerships;

our ability to access the remaining availability under our credit agreements;

our liquidity;

interest rates;

trends affecting our future financial condition or results of operations; and

our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our filings with the Securities and Exchange Commission. Important factors that could cause

actual results to differ materially from our expectations include the following:

the ability of automobile manufacturers to exercise significant control over our operations, since we depend on them in order to operate our business;

because we depend on the success and popularity of the brands we sell, adverse conditions affecting one or more automobile manufacturers may negatively impact our revenues and profitability;

if we are unable to complete additional acquisitions or successfully integrate acquisitions, we may not be able to achieve desired results from our acquisition strategy;

we may not be able to satisfy our capital requirements for making acquisitions, dealership renovation projects or financing the purchase of our inventory;

our failure to meet a manufacturer's consumer satisfaction requirements may adversely affect our ability to acquire new dealerships, our ability to obtain incentive payments from manufacturers and our profitability;

automobile manufacturers may impose limits on our ability to issue additional equity and on the ownership of our common stock by third parties, which may hamper our ability to meet our financing needs;

our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, consumer confidence, fuel prices and credit availability;

substantial competition in automotive sales and services may adversely affect our profitability;

if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel, our business could be adversely affected;

our quarterly operating results may fluctuate due to seasonality in the automotive retail business and other factors;

because most customers finance the cost of purchasing a vehicle, increased interest rates may adversely affect our vehicle sales;

our business may be adversely affected by import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;

our automobile dealerships are subject to substantial regulation which may adversely affect our profitability;



**Table of Contents**

if state dealer laws in the United States are repealed or weakened, our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements;

our U.K. dealerships are not afforded the same legal franchise protections as those in the U.S. so we could be subject to addition competition from other local dealerships in the U.K.;

our automotive dealerships are subject to foreign, federal, state and local environmental regulations that may result in claims and liabilities;

our dealership operations may be affected by severe weather or other periodic business interruptions;

our principal stockholders have substantial influence over us and may make decisions with which other stockholders may disagree;

some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests;

our level of indebtedness may limit our ability to obtain financing for acquisitions and may require that a significant portion of our cash flow be used for debt service;

due to the nature of the automotive retailing business, we may be involved in legal proceedings that could have a material adverse effect on our business;

our overseas operations subject our profitability to fluctuations relating to changes in foreign currency valuations; and

we are a holding company and as a result rely on the receipt of payments from our subsidiaries in order to meet our cash needs and service our indebtedness.

Furthermore,

the price of our common stock is subject to substantial fluctuation, which may be unrelated to our performance; and

shares eligible for future sale may cause the market price of our common stock to drop significantly, even if our business is doing well.

We urge you to carefully consider these risk factors in evaluating all forward-looking statements regarding our business. Readers of this report are cautioned not to place undue reliance on the forward-looking statements contained in this report. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Except to the extent required by the federal securities laws and Securities and Exchange Commission rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

*Interest Rates.* We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding indebtedness. Outstanding balances under our U.S. and U.K. credit agreements bear interest at a variable rate based on a margin over LIBOR, as defined. Based on the amount outstanding as of March 31, 2005, a 100 basis point change in interest rates would result in an approximate \$3.0 million change to our annual interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a

margin over LIBOR or prime rates. We continually evaluate our exposure to interest rate fluctuations and follow established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to mitigate the effect of interest rate fluctuations on our earnings and cash flows. We are currently party to a swap agreement pursuant to which a notional \$200.0 million of our floating rate floor plan debt was exchanged for fixed rate debt through January 2008. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments, a 100 basis point change in interest rates would result in an approximate \$10.8 million change to our annual interest expense.

Interest rate fluctuations affect the fair market value of our swaps and fixed rate debt, including the Notes and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

*Foreign Currency Exchange Rates.* As of March 31, 2005, we have invested in franchised dealership operations in the U.K., Germany, and Mexico. In each of these markets, the local currency is the functional currency. Due to the Company's intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. Other than the U.K., the Company's foreign operations are not significant. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate \$78.0 million change to our revenues for the three months ended March 31, 2005.

In common with other automotive retailers, we purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase the majority of our inventories in the local functional currency, our business is subject to certain risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility which may influence such manufacturers' ability to provide their products at competitive prices in the local jurisdictions. Our future results could be materially and adversely impacted by changes in these or other factors.

**Table of Contents**

**Item 4. *Controls and Procedures***

We maintain disclosure controls and procedures designed to ensure that both non-financial and financial information required to be disclosed in our periodic reports is recorded, processed, summarized and reported in a timely fashion. Based on the first quarter evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of March 31, 2005. In addition, we maintain internal controls designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal controls over financial reporting that occurred during our first quarter of 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In addition, we have considered the restatement of our Consolidated Condensed Balance Sheets and Consolidated Condensed Statements of Cash Flows to comply with the guidance under Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows* and have concluded that such restatement does not represent a material weakness in our internal controls over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we are involved in litigation relating to claims arising in the normal course of business. Such claims may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of March 31, 2005, we are not a party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

**Item 5. Other Information**

In February 2005, we acquired a 7% interest in a mobile vehicle washing company in exchange for \$2.4 million. Transportation Resource Partners, an organization discussed above under Management's Discussion and Analysis of Financial Condition and Results of Operations - Other Related Party Interests, simultaneously acquired a controlling interest in this company on the same financial terms as our investment.

On April 29, 2005, we acquired a 23% interest in a provider of outsourced vehicle management solutions in exchange for \$4.5 million. Transportation Resource Partners simultaneously acquired a controlling interest in this company on the same financial terms as our investment. We and several other investors, including Transportation Resource Partners, have entered into a stockholders agreement relating to this investment which, among other things, provides us with specified management rights and rights to purchase additional shares and restricts our ability to transfer shares. We have also entered into a management agreement which provides that we and other investors (or their affiliates) are to be provided ongoing management fees.

**Item 6. Exhibits**

- 10.1 VMC Holding Corporation Stockholders Agreement dated April 28, 2005 among VMC Holding Corporation, us, Transportation Resource Partners, LP, Penske Truck Leasing Co., L.P. and Opus Ventures General Partner Limited (incorporated by reference to our originally filed Form 10-Q on May 5, 2005).
- 10.2 Management Services Agreement dated April 28, 2005 among VMC Acquisition Corporation, us, Transportation Resource Advisors, LLC, Penske Truck Leasing Co., L.P. and Opus Ventures General Partner Limited (incorporated by reference to our originally filed Form 10-Q on May 5, 2005).
- 31 Rule 13a-14(a)/15(d)-14(a) Certifications.
- 32 Section 1350 Certifications.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED AUTO GROUP, INC.

Date: January 23, 2006

By: /s/ Roger S. Penske

Roger S. Penske  
*Chief Executive Officer*

Date: January 23, 2006

By: /s/ James R. Davidson

James R. Davidson  
*Executive Vice President*  
*Finance*  
*(Chief Accounting Officer)*

**Table of Contents**

**EXHIBIT INDEX**

**Exhibits**

**Number:**

**Description**

- |      |                                                                                                                                                                                                                                                                                                     |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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| 31   | Rule 13a-14(a)/15(d)-14(a) Certifications.                                                                                                                                                                                                                                                          |
| 32   | Section 1350 Certifications.                                                                                                                                                                                                                                                                        |