UNITED AUTO GROUP INC
Form S-3/A
March 12, 2002

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As filed with the Securities and Exchange Commission on March 12, 2002

Registration No. 333-82264

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2
TO

Form S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

United Auto Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-3086739**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

13400 Outer Drive West, Suite B-36

Detroit, Michigan 48239
(313) 592-7311
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Robert H. Kurnick, Jr., Esq.

General Counsel
United Auto Group, Inc.
13400 Outer Drive West, Suite B-36
Detroit, Michigan 48239
(313) 592-7550
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies To:

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Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	**Amount to be registered**	**Proposed maximum aggregate price per share(1)**	**Proposed maximum aggregate offering price(1)**	**Amount of registration fee(2)**
Voting Common Stock, par value $.0001 per share	6,900,000	$24.18	$166,842,000	$15,350

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended based on the average of the high and low sales price of the common stock on the New York Stock Exchange on January 30, 2002.

(2) Previously paid on February 6, 2002.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

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SUBJECT TO COMPLETION, DATED MARCH 12, 2002.

PROSPECTUS

6,000,000 Shares

[UNITED AUTO LOGO]

Common Stock

We are offering 3,000,000 shares of our common stock and the selling stockholders are offering an additional 3,000,000 shares of our common stock. We will not receive any proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is traded on the New York Stock Exchange under the symbol UAG. The last reported sale price for our common stock on the New York Stock Exchange on March 8, 2002 was $23.10 per share.

Concurrently with the common stock offering, we expect to offer $300.0 million aggregate principal amount of senior subordinated notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933. The equity offering is not contingent on the closing of the debt offering, but the debt offering is contingent on the closing of the equity offering.

See Risk Factors beginning on page 9 to read about certain risks that you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

Some of the selling stockholders have granted the underwriters a 30-day option to purchase up to an additional 900,000 shares of our common stock to cover any over-allotments.

The underwriters are severally underwriting the shares being offered. The underwriters expect to deliver the shares against payment in New York, New York on , 2002.

Bear, Stearns & Co. Inc. **Banc of America Securities LLC**
Merrill Lynch & Co.

Robertson Stephens
Stephens Inc.

The date of this prospectus is , 2002.

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[DESCRIPTION OF COLOR WORK]

[Artist rendition (site under construction) of Premier Automotive Group in North Scottsdale,
Artist rendition (site under construction) of Kearnly, Mesa Toyota
Pictures of Landers Nissan and Landers Dodge]

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PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. Because it is a summary, it is not complete and does not contain all the information you should consider before buying shares of our common stock in this offering. You should read the entire prospectus carefully, including the Risk Factors section and our consolidated financial statements and related notes included elsewhere in this prospectus, before deciding to invest in our common stock. Except as otherwise noted, all information in this prospectus assumes that the underwriters over-allotment option is not exercised. When we refer to common stock in this prospectus, we are referring to our voting common stock, par value $0.0001 per share, unless otherwise indicated.

United Auto Group, Inc.

We are the third largest publicly-held automotive retailer in the United States as measured by total revenues. As of December 31, 2001, we owned and operated 127 franchises located primarily in major metropolitan areas in 19 states, Puerto Rico and Brazil. We offer a full range of 29 vehicle brands, with 68% of our new vehicle revenues in 2001 generated from the combined sale of foreign brands and luxury brands such as Honda, Toyota, BMW, Lexus and Mercedes. In addition to selling new and used vehicles, we generate revenues at each of our dealerships through the sale of higher-margin products, such as finance, insurance and vehicle service contracts, maintenance and repair services, replacement parts and aftermarket automotive products.

Much of our growth and success over the last three years has resulted from the experienced leadership of Roger S. Penske and his management team. Since May 1999, Mr. Penske, through Penske Corporation, has invested approximately $175 million in our common stock and other equity securities. After giving effect to this offering, Mr. Penske, directly and through Penske Corporation, will beneficially own approximately 44% of our common stock. Since assuming leadership, Mr. Penske s management team has:

- improved same store retail revenues by an average rate of 9.4% per year over the past three years;
- acquired 52 franchises, which generated approximately $2.0 billion in total revenues in 2001;
- grown total revenues from $3.3 billion in 1998 to $6.2 billion in 2001; and
- increased our income from continuing operations per diluted common share from $0.64 in 1998 to $1.31 in 2001.

Business Strengths

We believe the following key strengths are critical to our success as a leading automotive retailer:

- *Favorable Brand Mix.* In recent years, foreign and luxury vehicle brands have gained significant market share from domestic vehicle brands. We have successfully pursued an acquisition strategy that provides us with the highest concentration of revenues from foreign brands among the publicly-traded automotive retailers. In 2001, approximately 68% of our new vehicle sales were comprised of foreign brands (including luxury brands, which generate higher margins for our dealerships), while, industry-wide, about 37% of U.S. new vehicle sales consisted of foreign brands.

- *Consistent Record of Internal Growth and Proven Acquisition Strategy.* Over the past three years, we have demonstrated strong internal growth, which has resulted in increases in average same store retail revenue of 9.9% for new vehicles, 8.0% for used vehicles, 17.2% for finance and insurance and 7.2% for service and parts. We follow a disciplined and systematic approach when evaluating acquisition opportunities and consistently analyze numerous factors including the following:
  - overall fit with operating strategy;
  - optimization of brand and product mix; and
  - strategic geographic location and future growth potential.

As a result of our acquisition strategy, we have increased our revenue mix of foreign vehicle brands from 56% of new vehicle sales in 1999 to 68% in 2001, thereby increasing our sales in the growing foreign vehicle segment.

Diversified Revenue Stream and Variable Cost Structure. We believe that our diversified revenue mix helps to mitigate the cyclicality of new vehicle sales and that our variable cost structure affords us flexibility in responding to economic cycles, enhancing our overall profitability. Sales of used vehicles, service and parts and finance and insurance products represented approximately 38% of our total revenues and generated approximately 63% of our gross profit in 2001. Our dealership operations are also diversified both in terms of the brands of vehicles they offer and geographic location. Our dealerships are primarily located within five domestic geographic regions, with no single region accounting for more than 30% of our total revenues during 2001. In addition, approximately 68% of our operating expenses are variable expenses, such as compensation, floor plan interest expense and advertising, which we can adjust to reflect economic trends. Currently, gross profit generated from our service and parts business absorbs a substantial portion of our total operating expenses, excluding salespersons compensation.

Experienced, Growth-Oriented Management Team. In May 1999, Roger S. Penske, a 37-year automotive industry veteran, became our Chairman and Chief Executive Officer and strengthened our management team with individuals having extensive experience in the automotive retail industry. Under his leadership, we:

- appointed five regional presidents, with an average of 23 years of automotive industry experience, who have full responsibility for the oversight of dealership operations, human resources and training in each of our five regions;
- assigned six brand managers who are responsible for developing and maintaining strong relationships with automobile manufacturers; and
- purchased and successfully integrated 52 franchises.

Outstanding Customer Service. We maintain superior levels of customer satisfaction by providing high-quality products and services to meet our customers needs. Our experienced management team and the corporate culture created and driven by Roger S. Penske enable us to provide outstanding customer service and to forge lasting relationships with our customers, which we believe increase our repeat and referral business. Approximately 75% of our franchises met or exceeded average customer sales satisfaction scores compiled by each of the manufacturers in 2001. Furthermore, we believe that our high customer satisfaction results have directly contributed to our significant increases in same store sales.

Business Strategy

Our objective is to be the most profitable, growth-oriented automotive retailer in each of the markets in which we operate. To achieve this objective, we intend to expand our existing business platform and continue to grow our higher-margin businesses, expand through targeted acquisitions, implement best practices , and emphasize customer service.

Expand Existing Business Platform and Grow Higher-Margin Businesses. In addition to continuing to focus on the growth of same store sales at each of our dealerships, we are focused on developing the areas of our business that will produce higher margins than new vehicle sales, such as used vehicle sales, finance and insurance and other aftermarket products, service and parts sales and collision repair services. During 2001, we invested a total of $83.4 million in our business. A substantial portion of this investment was allocated to the expansion and/or construction of new service and parts and collision repair centers in an effort to expand our higher-margin businesses. In 2001, our retail gross margins for these businesses were 10.6% for used vehicles, 58.5% for finance and insurance and 44.9% for service and parts and collision repair services, compared to 8.3% for new vehicles.

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Continue to Grow through Targeted Acquisitions. We intend to capitalize on the ongoing consolidation of the highly-fragmented automotive retail industry and seek to acquire dealerships with significant earnings growth potential. We believe that attractive acquisition opportunities continue to exist both in the U.S. and abroad for well-capitalized dealership groups with experience in identifying, acquiring, integrating and professionally managing dealerships. We primarily focus on opportunities in geographic markets with above-average projected population and job growth and strive to create regional groups of dealerships that will be able to share administrative and other functions to reduce costs.

Implement Best Practices. Our senior management and dealership management meet regularly to review the operating performance of our dealerships and corporate initiatives, to examine important industry trends and, where appropriate, to agree on specific operating improvements. This frequent interaction facilitates implementation of successful strategies throughout the organization, so that each of our dealerships can benefit from the successes of our other dealerships and from the knowledge and experience of our senior management. We share information and ideas throughout the organization to implement the best operating practices at each of our dealerships.

Emphasize Customer Service. One of the keys of our overall philosophy is customer-oriented service designed to meet the needs of an increasingly sophisticated and demanding automotive consumer through one-stop shopping convenience, competitive pricing and a sales staff that is knowledgeable about product offerings and responsive to a customer s particular needs. Our goal is to establish lasting relationships with our customers, which enhances our reputation in the community and creates the opportunity for significant repeat and referral business. To accomplish this goal, we provide our dealership employees with extensive training programs designed to improve customer service. In order to provide an additional layer of customer service, each of our dealerships maintains its own website, and our corporate website, www.unitedauto.com, provides a link to each of our dealership websites allowing consumers to source information and communicate directly with our dealerships located in their particular markets.

Recent Developments

On February 12, 2002 the boards of United Auto Group, Inc. and Sytner Group plc announced that they had reached agreement on the terms of a recommended cash offer for all of the share capital of Sytner. The terms of the tender offer include a cash payment of £95.3 million for all the outstanding Sytner shares and the assumption of approximately £13.9 million of indebtedness. Sytner shareholders also have the option of receiving loan notes rather than cash in exchange for their shares. We have borrowed $135.0 million under our credit agreement and have placed these funds in escrow to pay for Sytner.

Sytner operates 48 franchises and is one of the leading retailers of luxury vehicles in the United Kingdom. Sytner s franchises include: Alpina, Audi, Bentley, BMW, Chrysler, Ferrari, Jaguar, Jeep, Land Rover, Lexus, Lotus, Maserati, Mercedes-Benz, MINI, Porsche, Rolls-Royce, Saab, TVR, Volkswagen and Volvo. We believe that Sytner operates along commercial principles very closely aligned with those of our company. The commercial fit between the two businesses is a major factor behind the decisions by both companies to pursue this transaction.

Sytner is currently publicly traded on the London Stock Exchange and has been retailing cars for over 20 years. Sytner generated audited revenues of £596.9 million ($859.6 million) during the 14 months ended February 28, 2001 and unaudited revenues of £318.7 million ($459.0 million) during the six months ended August 31, 2001, in each case as reported under U.K. GAAP. Since August 31, 2001, Sytner has been awarded two Land Rover, one Bentley, and two Rolls-Royce franchises and has acquired one Mercedes-Benz franchise.

The acquisition of Sytner represents a significant step forward in the development of our international strategy. We believe that the European automotive retail sector is likely to see significant development over the next few years. We and Sytner believe that large, well-capitalized, international automotive retailers will be well placed to take advantage of the opportunities and meet the challenges that such developments may present.

We have indicated to the board of Sytner that one of the principal reasons for proceeding with this transaction is the skill, technical ability and experience of the existing management and employees of Sytner. Consequently, we expect that the existing operational and reporting structure of Sytner will be retained and Sytner will operate as an autonomous unit within our company. Frank Sytner will remain as Chairman of Sytner Group plc and Laurence Vaughan will continue as Sytner s Chief Executive. Mr. Vaughan also will be invited to join our board of directors. All other members of the senior management team will continue in their current roles.

On March 6, 2002, we received valid acceptances under the offer of approximately 91.3% of the issued share capital of Sytner Group plc. Accordingly, the offer became unconditional as to acceptances, although the offer remains subject to approval by the Office of Fair Trading in the United Kingdom (the relevant UK antitrust authority) as well as other customary conditions. It is possible that on or before March 13, 2002, the initial deadline (which can be extended) for the OFT to make a decision, UAG may receive the OFT s confirmation that it does not intend to refer UAG s acquisition of Sytner to the Competition Commission. If such confirmation is obtained, the acquisition of Sytner could be completed promptly. Upon receipt of all required approvals, closing of the transaction will occur.

Sytner Group plc

Summary Consolidated Financial Data

Set forth below is financial data of Sytner for the 14 months ended February 28, 2001 and the six months ended August 31, 2000 and 2001. The data for the 14 months ended February 28, 2001 is derived from Sytner s audited financial statements and the data for the six months ended August 31, 2000 and 2001 is derived from Sytner s unaudited financial statements, all of which are included in Sytner s publicly-filed reports in the United Kingdom. Sytner utilized a 14 month year for fiscal 2001 because it changed its fiscal year end during that period from December 31 to February 28. This data is presented in accordance with U.K. GAAP, has not been reconciled to U.S. GAAP and may, therefore, not be comparable to our consolidated financial statements. See footnote 2 for a description of several key differences between U.S. GAAP and U.K. GAAP. Data for the six month period ended August 31, 2001 is not necessarily indicative of Sytner s financial performance for a full fiscal year.

	Fourteen Months Ended February 28,	Six Months Ended August 31,	
	2001	2000	2001
		(unaudited)	(unaudited)
		(dollars in millions)(1)(2)	
Consolidated Statement of Operations Data:			
Revenues	$859.6	$393.8	$459.0
Operating income	14.3	7.7	10.0
Other Operating Data:			
Depreciation and amortization	$ 6.6	$ 2.6	$ 3.2
EBITDA(3)	20.9	10.3	13.3
EBITDA margin	2.4%	2.6%	2.9%
Consolidated Balance Sheet Data:			
Total assets	$230.0	$190.9	$246.9
Total debt (including floor plan notes payable)	53.8	43.5	47.1
Total stockholders equity	49.8	48.8	53.2

(1) These dollar amounts have been translated for convenience purposes from pounds sterling at the rate of £1 to $1.44, which was the average exchange rate during calendar 2001. Such data might be different if they were originally prepared in dollars.

(2) The results above have been prepared in accordance with U.K. GAAP. There are certain differences between U.S. GAAP and U.K. GAAP, the most significant of which for us relate to the treatment of accounting for intangibles arising in connection with acquisitions accounted for using the purchase

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method and the accounting for certain lease transactions. The Sytner financial data presented above has not been reconciled to U.S. GAAP and we have not quantified the impact of any such differences to the presented balance sheet and income statement data. These differences may be material. This summary should not be taken as an exclusive list of differences between U.K. GAAP and U.S. GAAP. The impact of any such additional differences may be material.

(3) EBITDA is defined by Sytner as income from continuing operations before income tax (provision) benefit, finance charges (including floor plan interest expense), depreciation and amortization. This definition differs from ours because it adds back floor plan interest expense, resulting in a higher EBITDA than would be the case using our definition. While EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flows from operating activities, which are determined in accordance with U.K. GAAP or U.S. GAAP, it is included in this prospectus to provide additional information with respect to Sytner s ability to meet future debt service, capital expenditure and working capital requirements. This measure may not be comparable to similarly-titled measures reported by other companies.

Concurrent Debt Offering

Concurrently with the common stock offering, we expect to offer $300.0 million aggregate principal amount of senior subordinated notes pursuant to Rule 144A and Regulation S of the Securities Act. The equity offering is not contingent on the closing of the debt offering, but the debt offering is contingent on the closing of the equity offering. The debt offering may not be completed on the terms described in this prospectus, or at all.

Corporate Information

We were incorporated in Delaware in December 1990 and began dealership operations in October 1992. Our executive offices are located at 13400 Outer Drive West, Suite B-36, Detroit, Michigan 48239. Our telephone number is (313) 592-7311. Our website address is www.unitedauto.com; information included or referred to on our website is not a part of this prospectus.

Market Data

This prospectus includes statistical data regarding the automotive retail industry. Unless otherwise indicated, that data is taken or derived from information published by:

the Industry Analysis Division of the National Automobile Dealers Association, also known as NADA, NADA Data 2000

Automotive News 2001 Market Data Book

Automotive News Data Center

CNW Marketing/ Research

Although we believe these industry sources are reliable, we have not independently researched or verified this information. Accordingly, investors should not place undue reliance on this information.

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The Offering

Common stock offered by us	3,000,000 shares
Common stock offered by the selling stockholders	3,000,000 shares
Common stock and non-voting common stock to be outstanding after the offering	33,468,000 shares
Use of Proceeds	We estimate that our net proceeds from this equity offering will be approximately $63.8 million. We intend to use these net proceeds to reduce the revolving portion of our credit agreement. We will not receive any proceeds from the sale of shares by the selling stockholders.
Risk Factors	See the Risk Factors section and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
New York Stock Exchange symbol	UAG

The number of shares of common stock and non-voting common stock outstanding after this equity offering is based on the number of shares outstanding as of March 8, 2002 (27,589,020 shares of common stock and 1,106,113 shares of non-voting common stock), as adjusted by the conversion by the selling stockholders of 1,772,867 shares of Series A convertible preferred stock into common stock and our issuance of 3,000,000 shares of common stock in this offering, and excludes:

- 2,809,935 shares of common stock issuable upon the exercise of stock options outstanding as of March 8, 2002, at a weighted average exercise price of $12.87 per share (1,533,569 were exercisable as of March 8, 2002 and the balance become exercisable in the future based upon continued employment); and

- 7,021.304 shares of Series A convertible preferred stock, which are convertible into 7,021,304 shares of common stock at any time, and 648.58834 shares of Series B convertible preferred stock, which are convertible into 648,588 shares of non-voting common stock at any time.

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Summary Consolidated Financial Data

The following table sets forth our summary historical consolidated financial data as of December 31, 2001 and for each of the years ending December 31, 1997, 1998, 1999, 2000 and 2001, which have been derived from our audited consolidated financial statements. You should read the following information together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related footnotes included elsewhere in this prospectus.

	Year Ended December 31,				
	1997(1)	1998(2)	1999	2000	2001
	(amounts in millions, except per share and vehicle-related data)				
Consolidated Statement of Operations Data(3):					
Revenues					
New vehicle sales	$1,238.5	$1,958.9	$2,417.9	$ 2,971.5	$ 3,866.7
Used vehicle sales	589.1	922.8	1,040.0	1,227.6	1,488.1
Finance and insurance	74.2	127.4	165.8	193.1	253.7
Service and parts	190.8	334.1	398.8	491.8	612.2
Total revenues	$2,092.6	$3,343.1	$4,022.5	$ 4,884.0	$ 6,220.7
Gross profit	$ 276.4	$ 455.6	$ 549.4	$ 678.0	$ 851.2
Selling, general and administrative expenses	255.1	375.0	445.1	539.7	693.3
Operating income	21.3	80.6	104.3	138.3	157.9
Floor plan interest expense	(19.3)	(28.7)	(28.7)	(44.4)	(42.4)
Other interest expense	(14.1)	(31.5)	(29.3)	(32.8)	(34.8)
Income (loss) from continuing operations	$ (7.9)	$ 13.4	$ 26.7	$ 34.0	$ 44.7
Income (loss) from continuing operations per diluted common share	$ (0.44)	$ 0.64	$ 1.01	$ 1.16	$ 1.31
Diluted shares outstanding	18.6	20.9	26.5	29.4	34.2
Other Operating Data:					
Revenue growth	60.7%	59.8%	20.3%	21.4%	27.4%
EBITDA(4)	$ 11.4	$ 73.1	$ 97.3	$ 118.0	$ 149.1
EBITDA margin	0.5%	2.2%	2.4%	2.4%	2.4%
Finance and insurance revenue per retail vehicle sold	$ 902	$ 1,026	$ 1,141	$ 1,130	$ 1,206
New vehicle retail units sold	50,985	77,403	93,259	112,676	141,056
Used vehicle retail units sold	31,253	46,724	52,027	58,252	69,302

	As of December 31, 2001		
	Actual	As Adjusted by Equity Offering and Warrant Exercise(5)	As Further Adjusted by Debt Offering(6)
		(unaudited) (in millions)	(unaudited)
Consolidated Balance Sheet Data:			
Working capital	$ 135.2	$ 135.2	$ 135.2
Inventories	641.4	641.4	641.4
Total assets	1,946.6	1,946.6	1,955.6

Floor plan notes payable	620.0	620.0	620.0
Total debt (excluding floor plan notes payable)(7)	556.0	429.7	438.7
Total stockholders equity	515.7	642.0	642.0

(1) Includes a $31.7 million pre-tax charge recorded during 1997 to realign various elements of our business.

(2) Includes a $12.6 million pre-tax charge for estimated future repair costs under the terms of approximately 51,000 warranty and extended service contracts sold from January 1, 1997 to October 31, 1998.

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(3) During 1998, we discontinued the auto finance business of our wholly-owned subsidiary, United Auto Finance, Inc. (UAF). As a result, UAF no longer engages in the purchase or sale of automotive loans. Consequently, UAF has been reported as a discontinued operation for all periods presented.

(4) EBITDA is defined as income (loss) from continuing operations before minority interests, income tax (provision) benefit, other interest expense (excluding floor plan interest expense), depreciation and amortization. Depreciation and amortization expense amounted to $9.1 million, $16.5 million, $19.1 million, $24.2 million and $33.6 million in 1997, 1998, 1999, 2000 and 2001, respectively. While EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flows from operating activities, which are determined in accordance with U.S. GAAP, it is included in this prospectus to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. This measure may not be comparable to similarly-titled measures reported by other companies.

(5) Adjusted to reflect (1) the sale of 3,000,000 shares of our common stock offered by us in this offering at an assumed offering price of $23.10 per share, less estimated underwriting discount and offering expenses payable by us and (2) the exercise on February 1, 2002 by certain of our stockholders of warrants to acquire 3,915,580 shares of voting common stock and 1,106,113 shares of non-voting common stock for an aggregate exercise price of $62.5 million.

(6) Further adjusted to reflect the proposed sale of $300.0 million of our senior subordinated notes in the concurrent debt offering, less the estimated discount and related offering expenses. The debt offering may not be completed on the terms described in this prospectus or at all.

(7) As of March 8, 2002, $604.5 million was outstanding under our credit agreement, which includes (1) $135.0 million borrowed under our credit agreement and placed in escrow to pay for Sytner and (2) receipt by us of $50.0 million through a sale-leaseback transaction with a related party.

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RISK FACTORS

Before you invest in our common stock you should carefully consider the following risks, as well as the other information set forth in this prospectus and the information incorporated by reference. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our common stock could decline, and you could lose all or part of your investment.

Automobile manufacturers exercise significant control over our operations and we depend on them in order to operate our business.

Each of our dealerships operates pursuant to franchise agreements with automobile manufacturers or manufacturer-authorized distributors. We are dependent on our relationships with these automobile manufacturers because, without a franchise agreement, we cannot obtain new vehicles from a manufacturer. A large number of our vehicles are manufactured by BMW, DaimlerChrysler, Ford, General Motors, Honda, Nissan and Toyota. A significant decline in the sale of new vehicles manufactured by these manufacturers, or the loss or deterioration of our relationships with one or more of these manufacturers, could have a material adverse effect on our revenues and profitability.

Manufacturers exercise a great degree of control over the operations of our dealerships. For example, manufacturers can require our dealerships to meet specified standards of appearance and quality, require individual dealerships to meet specified financial criteria such as maintenance of minimum net working capital and, in some cases, minimum net worth, impose minimum customer service and satisfaction standards, set standards regarding the maintenance of inventories of vehicles and parts, require dealerships to provide financial statements as often as monthly, and govern the extent to which our dealerships can utilize the manufacturers names and trademarks. In many cases the manufacturer must consent to the replacement of the dealership s general manager.

Our franchise agreements worldwide may be terminated or not renewed by the automobile manufacturers for a variety of reasons, including any unapproved change of ownership or management and other material breaches of the franchise agreements. We have from time to time been in non-compliance with various provisions of some of our franchise agreements. Although we believe that we will be able to renew at expiration all of our existing franchise agreements, there can be no assurance that any of our existing franchise agreements will be renewed or that the terms and conditions of such renewals will be favorable to us. Any termination or non-renewal of our significant franchise agreements or a large number of our franchise agreements would have a material adverse effect on our revenues and profitability. In addition, actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our revenues and profitability.

In addition, we depend on manufacturers to provide us with a desirable mix of popular new vehicles, which produce the highest profit margins and tend to be the most difficult to obtain from manufacturers. Manufacturers generally allocate their vehicles among dealerships based on the sales history of each dealership. If we cannot obtain sufficient quantities of the most popular models, whether due to sales declines at our dealerships or otherwise, our new vehicle sales and profitability may be adversely affected. Sales of less profitable models may reduce our profit margins.

Our dealerships also depend on the manufacturers for sales incentives, warranties and other programs that are intended to promote and support new vehicle sales by our dealerships. Some of these programs include customer rebates on new vehicles, dealer incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicle sales by authorized new vehicle dealers. Manufacturers have historically made many changes to their incentive programs during each year. A reduction or discontinuation of a manufacturer s incentive programs could materially adversely affect our new vehicle sales volume and our profitability.

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Our franchise agreements do not give us the exclusive right to sell a manufacturer s product within a given geographic area. Accordingly, a manufacturer may, subject to any protection of state law, grant another dealer a franchise to start a new dealership near one of our locations, or an existing dealer may move its dealership to a location which would compete directly with us. The location of new dealerships near our existing dealerships could materially adversely affect our operations, revenues and profitability.

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.

Our success depends on the overall success of the line of vehicles that each of our dealerships sells. As a result, our success depends to a great extent on the automobile manufacturers financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and labor relations. Although we have attempted to lessen our dependence on any one manufacturer by establishing relationships with a number of different foreign and domestic automobile manufacturers, in 2001 Toyota, DaimlerChrysler, General Motors, Honda and Ford accounted for 28%, 18%, 14%, 12% and 11%, respectively, of our total revenues. No other manufacturer accounted for more than 10% of our total 2001 revenues. Events such as labor strikes that may adversely affect a manufacturer may also adversely affect us. In particular, labor strikes at a manufacturer that continue for a substantial period of time could have a material adverse effect on our business. Similarly, the delivery of vehicles from manufacturers at a time later than scheduled, which may occur particularly during periods of new product introductions, could lead to reduced sales during those periods. This has been experienced at some of our dealerships from time to time. In addition, any event that causes adverse publicity involving one or more automobile manufacturers or their vehicles may have an adverse effect on our revenues and profitability regardless of whether that event involves any of our dealerships.

If we are unable to complete additional acquisitions and successfully integrate acquisitions, we will be unable to achieve desired results from our acquisition strategy.

Growth in our revenues and earnings depends substantially on our ability to acquire and successfully operate dealerships. We cannot guarantee that we will be able to identify and acquire dealerships in the future. Moreover, acquisitions, including the proposed Sytner acquisition, involve a number of risks, including:

- incurring significantly higher capital expenditures and operating expenses;
- failing to integrate the operations and personnel of the acquired dealerships;
- entering new markets with which we are not familiar;
- incurring undiscovered liabilities at acquired dealerships;
- disrupting our ongoing business;
- failing to retain key personnel of the acquired dealerships;
- impairing relationships with employees, manufacturers and customers; and
- incorrectly valuing acquired entities.

In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management resources or other operational or financial problems. Unforeseen expenses, difficulties, complications and delays frequently encountered in connection with the integration of acquired entities and the rapid expansion of operations could inhibit our growth, result in our failure to achieve acquisition synergies and require us to focus resources on integration rather than more profitable areas.

In connection with our proposed acquisition of Sytner, we cannot be sure that we will be able to integrate Sytner s business into our company successfully. In addition, the policies, procedures, business practices and management controls used successfully in the U.S. may not succeed or be accepted in the

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United Kingdom. As a result, we cannot be sure that we will be able to achieve the financial and operating results at Sytner that we anticipate.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase in light of the circumstances of each transaction, acquired entities (including our proposed acquisition of Sytner) may subject us to unforeseen liabilities that we are unable to detect prior to completing the acquisition or liabilities that turn out to be greater than those we had expected. These liabilities may include liabilities that arise from non-compliance with environmental laws by prior owners for which we, as a successor owner, will be responsible. Until we assume operating control of acquired entities, we may not be able to ascertain the actual value of the acquired entity. In the case of the proposed Sytner acquisition, because the acquisition is being made by tender offer, we will not be indemnified by the sellers for any such liabilities.

There can be no assurance that we will identify acquisition candidates that would result in the most successful combinations or that we will be able to complete acquisitions on acceptable terms on a timely basis. The magnitude, timing and nature of future acquisitions will depend upon various factors, including the availability of suitable acquisition candidates, the negotiation of acceptable terms, our financial capabilities, the availability of skilled employees to manage the acquired companies and general economic and business conditions. Further, covenants contained in our debt instruments impose limitations on our ability to acquire additional dealerships and future debt instruments may impose additional restrictions.

Our future growth via acquisition of automobile dealerships in the United States and abroad will depend on our ability to obtain the requisite manufacturer approvals. We must obtain the consent of a manufacturer prior to the acquisition of any of its dealership franchises anywhere in the world. Obtaining the consent of a manufacturer for the acquisition of a dealership could take a significant amount of time or be rejected entirely. In addition, under many franchise agreements or under state law, a manufacturer will have a right of first refusal to acquire a dealership that we seek to acquire. Alternatively, in connection with acquisitions by us, one or more manufacturers may seek to impose various conditions on us in connection with their approval of an acquisition. If the conditions are not satisfied, we may be precluded from acquiring, either directly or through acquisitions, additional franchises. In addition, factors outside our control may cause a manufacturer to reject our application to make acquisitions. In determining whether to approve an acquisition, manufacturers may consider many factors, including the moral character and business experience of the dealership principals and the financial condition, ownership structure, the number of current franchises owned, sales performance and customer satisfaction index scores of our dealerships. In addition, manufacturers limit the total number of their dealerships that we may own nationally or in a particular geographic area or metropolitan region and, in some cases, the total number of their vehicles that we may sell as a percentage of that manufacturer s overall sales. Manufacturers also limit the ownership of stores in contiguous markets, the dualing of a franchise with another brand, and the frequency of acquisitions. Although to date we have only reached these ceilings with one manufacturer, our growth strategy may be affected by these limits.

We may not be able to satisfy our capital requirements for making acquisitions and financing the purchase of our inventory.

We require substantial capital in order to acquire automobile dealerships. This capital might be raised through public or private financing, including through the issuance of our equity securities as full or partial consideration for acquisitions, as well as borrowings and other sources. Other than our credit agreement, we do not have any commitments or immediate plans with respect to acquisition financing. Availability under our credit agreement is limited by a collateral-based borrowing base calculated using our net tangible assets. There can be no assurance that additional or sufficient financing will be available, or, if available, that it will be available on acceptable terms. If we raise additional funds by issuing our equity securities, dilution to then existing stockholders may result. The extent to which we will be able or willing to issue equity securities for acquisitions will depend on the market value of our common stock and the willingness of our potential acquisition candidates to accept equity securities as partial or full consideration for the sale of their businesses. The number of shares of common stock that we issue in connection with

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acquisitions could be large. In addition, a decline in the market price of our common stock for any reason, including, without limitation, a perception that sales of substantial amounts of common stock which are not then publicly registered could occur, may increase the amount of cash required by us to finance acquisitions. If adequate funds are not available, we may be required to significantly curtail our acquisition program, which would materially and adversely affect our growth strategy.

We depend to a significant extent on our ability to finance the purchase of inventory, which in the automotive retail industry involves borrowing significant sums of money in the form of floor plan financing. Floor plan financing is the vehicle through which dealerships finance the purchase of new vehicles from a manufacturer. The dealership borrows money to buy a particular vehicle from the manufacturer and pays off the loan when it sells the particular vehicle, paying interest during the interim period. In connection with acquisitions of dealerships, we must either obtain new floor plan financing or obtain consents to assume that financing. Our floor plan financing is secured by substantially all of the assets of our automotive dealership subsidiaries and, in some cases, a guarantee from us. Our remaining assets are pledged to secure our credit agreement. This may impede our ability to borrow from other sources. Most of our floor plan lenders are associated with manufacturers with whom we have franchise agreements. Consequently, the deterioration of our relationship with a manufacturer could adversely affect our relationship with the affiliated floor plan lender and vice versa.

Any inability to obtain floor plan financing on customary terms, or the termination of our floor plan financing arrangements by our floor plan lenders, would have a material adverse effect on our operations.

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.

Many manufacturers attempt to measure customers satisfaction with their sales and warranty service experiences through systems which vary from manufacturer to manufacturer but which are generally known as customer satisfaction indices, or CSI. These manufacturers may use a dealership s CSI scores as a factor in evaluating applications for additional dealership acquisitions. The components of CSI have been modified by various manufacturers from time to time in the past, and these components might be further modified or replaced by different systems in the future. To date, we have not been materially adversely affected by these standards and have not been denied approval of any acquisition based on low CSI scores, although certain of our dealerships have had difficulty from time to time meeting their manufacturers CSI standards. However, we cannot be sure that we will be able to comply with these standards in the future. A manufacturer may refuse to consent to an acquisition of one of its franchises if it determines that our dealerships do not comply with the manufacturer s CSI standards. This could materially adversely affect our acquisition strategy. In addition, because we receive payments from the manufacturers based in part on CSI scores, future payments could be materially reduced or eliminated if our CSI scores decline.

Automobile manufacturers 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.

A number of manufacturers impose restrictions on the sale and transfer of our common stock. The most prohibitive restrictions provide that, under specified circumstances, we may be forced to sell or surrender franchises (1) if a competitor automobile manufacturer acquires a 5% or greater ownership interest in us if the manufacturer objects to that acquisition within 60 days or (2) if an individual or entity that has a criminal record in connection with business dealings with any automobile manufacturer, distributor or dealer or who has been convicted of a felony acquires a 5% or greater ownership interest in us and the manufacturer objects to that acquisition within 60 days. Similarly, several manufacturers, such as Nissan, Toyota, Mercedes, General Motors, Infiniti and Isuzu, have the right to approve the acquisition by a third party of 20% or more of our voting equity, and a number of manufacturers, including BMW, Toyota, Honda, DaimlerChrysler, Ford, General Motors, and Jaguar, continue to prohibit changes in ownership that may affect control of our company. One manufacturer can repurchase its dealerships if Roger Penske s ownership falls below 37.6% or if Mr. Penske is no longer our chief executive officer.

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Actions by our stockholders or prospective stockholders that would violate any of the above restrictions are generally outside our control. If we are unable to renegotiate these restrictions, we may be forced to terminate or sell one or more franchises, which could have a material adverse effect on us. This may also inhibit our ability to acquire dealership groups. These restrictions also may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. These restrictions also may impede our ability to raise required capital or to issue our stock as consideration for future acquisitions. These restrictions do not apply to the completion of this offering.

Our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in consumer confidence, fuel prices and credit availability.

We believe that the automotive retail industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, interest rates, fuel prices, unemployment rates and credit availability. Historically, unit sales of motor vehicles, particularly new vehicles, have been cyclical, fluctuating with general economic cycles. During economic downturns, retail new vehicle sales tend to experience periods of decline characterized by oversupply and weak demand. The current economic outlook in the aftermath of the September 11, 2001 attacks is uncertain. The automotive retail industry may experience sustained periods of decline in vehicle sales in the future. In addition, changes in interest rates could significantly impact our vehicle sales because a significant portion of vehicle buyers finance their purchases. Any decline or change of this type could have a material adverse effect on our business, revenues and profitability.

In addition, local economic, competitive and other conditions affect the performance of our dealerships. Our revenues and profitability depend substantially on general economic conditions and spending habits in those regions of the United States where we maintain most of our operations.

Substantial competition in automotive sales and services may adversely affect our profitability.

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with:

- franchised automotive dealerships in our markets that sell the same or similar makes of new and used vehicles that we offer and occasionally at lower prices than us;
- other national or regional affiliated groups of franchised dealerships;
- private market buyers and sellers of used vehicles;
- Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- service center chain stores; and
- independent service and repair shops.

We also compete with regional and national vehicle rental companies that sell their used rental vehicles. In addition, automobile manufacturers may directly enter the retail market in the future, which could have a material adverse effect on us. As we seek to acquire dealerships in new markets, we may face significant competition as we strive to gain market share. Some of our competitors have greater financial, marketing and personnel resources and lower overhead and sales costs than us. We do not have any cost advantage in purchasing new vehicles from the automobile manufacturers and typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. Our franchise agreements do not grant us the exclusive right to sell a manufacturer s product within a given geographic area. Our revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships.

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In addition to competition for vehicle sales, our dealerships compete with franchised dealerships to perform warranty repairs and with other automotive dealers, franchised and independent service center chains and independent garages for non-warranty repair and routine maintenance business. Our dealerships compete with other automotive dealers, service stores and auto parts retailers in their parts operations. We believe that the principal competitive factors in service and parts sales are price, the use of factory-approved replacement parts, the familiarity with a manufacturer s brands and models and the quality of customer service. A number of regional or national chains offer selected parts and services at prices that may be lower than our dealerships prices. We also compete with a broad range of financial institutions in arranging financing for our customers vehicle purchases.

Some automobile manufacturers have begun to acquire automotive dealerships or may do so in the future. Our revenues and profitability could be materially adversely affected by the efforts of manufacturers to enter the retail arena.

In addition, the Internet is becoming a significant part of the sales process in our industry. We believe that customers are using the Internet as part of the sales process to compare pricing for cars and related finance and insurance services, which may reduce gross profit margins for new and used cars and profits for related finance and insurance services. Some websites offer vehicles for sale over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, or if dealerships are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected. We would also be materially adversely affected to the extent that Internet companies acquire dealerships or ally themselves with our competitors dealerships.

Automotive retailing is a mature industry with limited growth potential in new vehicle sales.

The U.S. automotive retail industry is considered a mature industry in which minimal growth in unit sales of new vehicles is expected. Accordingly, growth in our revenues and earnings will depend significantly on our ability to acquire and consolidate profitable dealerships, grow our higher-margin businesses and expand our automobile financing and other aftermarket business.

If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected.

We believe that our success depends to a significant extent upon the efforts and abilities of our executive management and key employees, including, in particular, Roger S. Penske. Additionally, our business is dependent upon our ability to continue to attract and retain qualified personnel, such as managers, as well as retaining executive management in connection with acquisitions. We generally have not entered into employment agreements with our key personnel and we cannot guarantee that any individual will continue in his or her present capacity with us for any particular period of time. The loss of the services of one or more members of our senior management team, including, in particular, Roger S. Penske, could have a material adverse effect on us and materially impair the efficiency and productivity of our operations. We do not have key man insurance for any of our executive officers or key personnel. In addition, the loss of any of our key employees or the failure to attract qualified managers could have a material adverse effect on our business and may materially impact the ability of our dealerships to conduct their operations in accordance with our national standards. In connection with the Sytner acquisition, our failure to retain key senior executives and personnel could have an adverse impact on our ability to operate Sytner as we presently contemplate.

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

The automobile industry experiences seasonal variations in revenues. Demand for automobiles is generally lower during the winter months than in other seasons, particularly in regions of the United States associated with harsh winters. A higher amount of vehicle sales generally occurs in the second and third

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fiscal quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Therefore, if conditions surface in the second or third quarters that depress or affect automotive sales, such as high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year will be disproportionately adversely affected. Our dealerships located in the northeastern states are affected by seasonality more than our dealerships in other regions.

In addition, the U.K. retail automotive industry typically experiences peak sales activity during March and September of each year. This seasonality results from the perception in the U.K. that the resale value of a vehicle may be determined by the date that the vehicle is registered. Because new vehicle registration periods begin on March 1 and September 1 each year, vehicles with comparable mileage that were registered in March may have an equivalent used vehicle value to vehicles registered in August of the same year.

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

A significant portion of our new vehicle business involves the sale of vehicles, vehicle parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks associated with imported merchandise, including fluctuations in the relative value of currencies, import duties, exchange controls, differing tax structures, trade restrictions, transportation costs, work stoppages and general political and economic conditions in foreign countries.

The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs on imported merchandise. Any of those impositions or adjustments could materially affect our operations and our ability to purchase imported vehicles and parts at reasonable prices, which could have a material adverse effect on our business.

Our automotive dealerships are subject to substantial regulation which may adversely affect our profitability.

A number of foreign, federal, state and local regulations affect our business of marketing, selling, financing and servicing automobiles. We also are subject to laws and regulations relating to business corporations generally.

Under the laws of states in which we currently operate or into which we may expand, we typically must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service, including dealer, sales, finance and insurance-related licenses issued by state authorities. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include state franchise laws and regulations and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as federal and state wage-hour, anti-discrimination and other employment practices laws. Our operations are also subject to the National Traffic and Motor Vehicle Safety Act, the Magnusson-Moss Warranty Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and various state motor vehicle regulatory agencies.

Our operations are also subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer s express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information.

The imported automobiles purchased by us are subject to U.S. customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

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Our financing activities with customers are subject to federal truth-in-lending, consumer leasing and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some states regulate finance fees that may be paid as a result of vehicle sales.

We believe that we comply in all material respects with the laws affecting our business. Possible penalties for violation of any of these laws or regulations include revocation or suspension of our licenses and civil or criminal fines and penalties. In addition, many laws may give customers a private cause of action.

If state dealer laws in the United States are repealed or weakened, our automotive dealerships will be more susceptible to termination, non-renewal or renegotiation of their franchise agreements.

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state dealer laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer s criteria within the notice period to avoid the termination or non-renewal. Though unsuccessful to date, manufacturers lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration. In addition, Europe does not have state dealer laws and, as a result, our European operations will be required to operate without these protections.

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

We are subject to a wide range of foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of underground and aboveground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. Operations involving the management of hazardous and non-hazardous materials are subject to requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under RCRA and comparable statutes. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. We may also have liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Comprehensive Environmental Response, Compensation and Liability Act, and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. However, soil and groundwater contamination is known to exist at some of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and those expenditures could be material. See Business Environmental Matters.

Our principal stockholders have substantial influence over us and may make decisions with which you disagree. Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests.

Upon completion of the equity offering, Penske Corporation, Penske Capital Partners, L.L.C. and various of their affiliates will beneficially own over 55% of our outstanding common stock. In addition, these entities have entered into a stockholders agreement with several of our other stockholders in which they have agreed to elect five nominees of Penske Capital Partners to our board of directors. As a result, these persons have the ability to control us and direct our affairs and business.

This concentration of ownership, as well as various provisions contained in our agreements with manufacturers, our certificate of incorporation and bylaws and the Delaware General Corporation Law, could have the effect of discouraging, delaying or preventing a change in control of us or unsolicited acquisition proposals that a stockholder might consider favorable. These provisions include the stock ownership limits imposed by various manufacturers, the classified structure of our board of directors, our ability to issue blank check preferred stock and the interested stockholder provisions of Section 203 of Delaware law. In addition, the concentration of ownership and such provisions may materially adversely affect the ability of stockholders to realize a premium on the sale of their shares of common stock in a takeover of us.

Some of our executive officers affiliated with our largest stockholder hold executive positions at companies other than our company. Roger S. Penske, our Chairman and Chief Executive Officer, is also Chairman and Chief Executive Officer of Penske Corporation, a diversified transportation services company, and Chairman of Penske Truck Leasing Corporation. Robert H. Kurnick, Jr., our Executive Vice President and General Counsel, is also Executive Vice President of Penske Corporation and General Counsel of Penske Capital Partners, LLC and Paul H. Walters, our Executive Vice President Human Resources, is also Executive Vice President Administration of Penske Corporation. Much of the compensation of these officers is generally paid by Penske Corporation and not by us, and while these officers have historically devoted a substantial majority of their time to our matters, these officers are not required to spend any specific amount of time on our matters. In addition, James A. Hislop, one of our directors, is President and Chief Executive Officer of Penske Capital Partners, LLC and a director of Penske Corporation, and Richard J. Peters, one of our directors, is the President and a director of Penske Corporation. In addition, Penske Corporation is the owner of Penske Automotive Group, a privately held automotive dealership company with operations in southern California. Due to their relationships with their related entities, Messrs. Penske, Kurnick, Walters, Hislop and Peters may have a conflict of interest in making any decision related to transactions between their related entities and us or with respect to allocations of corporate opportunities. To date, all affiliated transactions have been approved by an affirmative vote of a majority of the disinterested members of our board of directors.

Our substantial amount of indebtedness may limit our ability to obtain financing for acquisitions and will require that a significant portion of our cash flow be used for debt service.

We are highly leveraged. As of December 31, 2001, after giving effect to this equity offering, the concurrent debt offering, and the warrant exercise on February 1, 2002, we would have had approximately $438.7 million of long-term debt outstanding and $620.0 million of floor plan notes payable outstanding. As of March 8, 2002, $604.5 million was outstanding under our credit agreement, which includes (1) $135.0 million borrowed under our credit agreement and placed in escrow to pay for Sytner and (2) the receipt by us of $50.0 million through a sale-leaseback transaction with a related party.

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Our substantial debt could have important consequences to you. For example, it could:

- make it more difficult for us to obtain additional financing in the future for our acquisitions and operations, working capital requirements, capital expenditures, debt service, or other general corporate requirements;
- require us to dedicate a substantial portion of our cash flows from operations to the repayment of our debt and the interest associated with our debt rather than to other areas of our business;
- limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt, creating liens on our properties, making acquisitions and paying dividends;
- subject us to the risks that interest rates and our interest expense will increase;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- make us more vulnerable in the event of adverse economic and industry conditions or a downturn in our business.

In addition, an event of default under our principal credit agreement and certain of our floor plan financing arrangements would occur to the extent that Penske Capital Partners and/or Penske Corporation do not control our board of directors.

Our ability to meet our debt service obligations depends on our future financial and operating performance, which will be impacted by general economic conditions and by financial, business and other competitive factors, many of which are beyond our control. These factors could include operating difficulties, increased operating costs, the response of competitors, regulatory developments and delays in implementing our growth strategies. Our ability to meet our debt service and other obligations may depend in significant part on the extent to which we can successfully implement our business strategy. We may not be able to implement our business strategy and the anticipated results of our strategy may not be realized.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our credit agreement or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If we are unable to service our debt, due to inadequate liquidity or otherwise, we may have to delay or cancel acquisitions, sell equity securities, sell assets or restructure or refinance our indebtedness. We cannot assure you that, if we are unable to service our debt, we will be able to sell our equity securities, sell our assets or restructure or refinance our debt on a timely basis or on satisfactory terms or at all. In addition, the terms of our existing or future franchise agreements, agreements with manufacturers or debt agreements, including the indenture governing the notes and our credit agreement, may prohibit us from adopting any of these alternatives.

Our debt instruments, including the credit agreement and the indenture governing the notes which may be issued in the concurrent debt offering, also permit us to incur additional debt in the future. In addition, the entities we may acquire in the future could have significant amounts of debt outstanding which we would be required to assume in connection with the acquisition.

Due to the nature of the automotive retailing business, we may be involved in legal proceedings or suffer losses that could have a material adverse effect on our business.

We will generally continue to be involved in legal proceedings in the ordinary course of business. A significant judgment against us, the loss of a significant license or permit or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects. In addition, it is possible that we could suffer losses at individual dealerships due to fraud or theft.

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The Sytner acquisition may not close on the terms contemplated or at all.

Our U.K. subsidiary has commenced a tender offer in the United Kingdom to acquire all of the share capital of Sytner. However, we cannot assure you that the tender offer will be successful or that the acquisition will be consummated on the terms presently contemplated or at all. Consummation of the tender offer is subject to customary conditions for tender offers in the United Kingdom, including, among others, regulatory approval in the U.K. and there having occurred no adverse change in Sytner s business or prospects since August 31, 2001.

Changes in the European Commission s regulations regarding automobile manufacturers may have an adverse effect on Sytner.

European automobile manufacturers and distributors have, for the past sixteen years, benefited from successive European Commission Block Exemptions. The current Block Exemption has been in place since 1995. It gives European vehicle companies and dealers immunity from a number of antitrust restrictions on distribution and servicing agreements and has allowed vehicle manufacturers to sell vehicles only through selected dealers, each with exclusive territories.

The Block Exemption will expire on September 30, 2002 and a new draft Regulation, approved by the European Commission on February 5, 2002, has been proposed as a replacement regime governing the relationship between European automobile manufacturers and dealers.

The European Commission adopted an evaluation report on the operation of the current Block Exemption which concluded that several of the underlying aims of the Block Exemption had not been achieved. It concluded that European consumers found it hard to exercise their rights under the single market and to take advantage of price differentials between member states, that competition between dealers is not strong enough and that dealers remain too dependent on vehicle manufacturers.

The new draft Regulation does not prescribe a single rigid model for vehicle distribution but rather leaves a set of choices open to vehicle manufacturers, distributors and dealers. Its key features are:

- vehicle manufacturers may choose between exclusive distribution, where each dealer approved by the manufacturer is allowed a sales territory, and selective distribution, where dealers are selected according to a set of criteria;
- there are no prescriptions about the type of criteria that might be used or the way distribution networks are organized (other than a defined blacklist of severely anti-competitive restrictions);
- retailers will have a choice about whether they sell more than one brand of vehicle;
- dealers in a selective distribution system may engage in active sales throughout the European Union, or set up other sales outlets or delivery points in any member state; and
- dealers may choose whether they wish to carry out repairs themselves, or subcontract them to another authorized member of the manufacturer s network (independent repairers may become authorized repairers without being obliged to sell new vehicles).

The draft Regulation will be further considered by the Advisory Committee on Restrictive Practices and Dominant Positions in March 2002 with a view to being formally adopted by the European Commission before the summer and to come into force on October 1, 2002. It is then expected to remain in place until May 31, 2010.

The Sytner acquisition exposes us to the risks involved in international operations.

The acquisition of Sytner, if consummated, would be our largest expansion outside of the United States. We do not have significant experience operating dealerships outside of the United States and strategies that have succeeded in the U.S. may not achieve similar results in the United Kingdom.

Moreover, our international expansion will expose us generally to the risks involved in foreign operations, including:

- changes in international tax laws and treaties, including increases of withholding and other taxes on remittances and other payments by subsidiaries;
- currency and exchange risks;
- tariffs, trade barriers, and restrictions on the transfer of funds between nations;
- changes in U.K. governmental regulations;
- the impact of local economic and political conditions;
- the impact of European Commission regulation and the relationship between the U.K. and continental Europe; and
- increased competition and the impact on vehicle pricing resulting from the expiration of the Block Exemption.

In addition, Sytner s results of operations and financial position are reported in British pounds sterling and would then be translated into U.S. dollars at the applicable foreign currency exchange rate for inclusion in our consolidated financial statements. As exchange rates between the U.K. and the U.S. fluctuate, the translation effect of such fluctuations may have a material effect on our results of operations or financial position as reported in U.S. dollars.

The price of our common stock is subject to substantial fluctuation, which may be unrelated to our performance.

The public market for our common stock has experienced significant price fluctuations. Factors such as fluctuations in our results of operations, conditions specific to the automobile retail industry, earnings and other announcements by our competitors, conditions in securities markets in general and recommendations by securities analysts may cause the market price of our common stock to fluctuate, perhaps substantially.

In addition, in recent years the stock market has experienced significant price and volume fluctuations which, although often unrelated to our operating performance, have had a substantial effect on the market price of our common stock. Significant fluctuation in the prices of common stock have in recent years often led to class action lawsuits brought against companies. If any such lawsuits were brought against our company, the lawsuit could require large expenditures by our company for defending against the suit, divert management s attention from running our business, harm our company s reputation and otherwise have a material adverse effect on our business.

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

The potential for sales of substantial amounts of our common stock in the public market after this offering may have a material adverse affect on the market price of our common stock. After this offering is completed, we will have 33,468,000 shares of common stock and non-voting common stock outstanding, and we will also have outstanding shares of preferred stock convertible at any time into 7,021,304 shares of common stock. The beneficial owners of 9,833,286 shares of common and preferred stock will be subject to lockup agreements with the underwriters which will restrict the sale of these shares for 90 days, and the beneficial owners of 16,787,308 additional shares of common and preferred stock (and options to acquire common stock exercisable within 60 days after the date of this prospectus) will be subject to lock-up agreements with the underwriters which will restrict the sale of these shares for 180 days. All other shares will be freely tradable except for (1) shares held by persons deemed to be affiliates of us and (2) the 1,064,224 shares subject to Rule 144 issued in connection with acquisitions in October 2000 (774,984 shares) and October 2001 (289,240 shares). Shares held by affiliates may only be resold pursuant to an effective registration statement or an exemption from registration, including in compliance with the volume, manner of sale, holding period (for restricted securities only) and other limitations of Rule 144.

We are required to file a shelf registration statement with respect to up to 3,714,711 shares of common stock for the benefit of the selling stockholders, which will be filed no earlier than the 46th day after the date of this prospectus, and to have such registration statement declared effective on or prior to the 90th day after the date of this prospectus. In addition, we are also required to file a registration statement registering an additional 4,500,000 shares of common stock for the benefit of the selling stockholders which must be declared effective by February 1, 2003. In addition, the holders of 22,588,456 shares (Penske Corporation, IMCG-I and IMCG-II) have registration rights pursuant to which they can demand the registration of their shares after the expiration of their 180-day lockup period.

In addition to outstanding shares eligible for sale, 2,383,935 shares of our common stock are issuable under currently outstanding stock options granted to current and former officers and employees of the company. An additional 581,080 shares of common stock are reserved for issuance to employees under our stock option plan. We have filed registration statements covering 3,000,838 shares of common stock reserved for issuance under our common stock plans.

We cannot determine the impact on the market price of our common stock of these shares which are eligible for sale in the market. See Shares Eligible for Future Sale.

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.

We are a holding company and our principal assets consist of the shares of capital stock or other equity instruments of our subsidiaries. As a holding company without independent means of generating operating revenues, we depend on dividends, distributions and other payments, including payments of management fees and pursuant to tax sharing arrangements, from our subsidiaries to fund our obligations and meet our cash needs. We cannot assure you that the operating results of our subsidiaries at any given time will be sufficient to make distributions to us. Our expenses include salaries of our executive officers, insurance, professional fees and payment of certain indebtedness that may be outstanding from time to time. Most of our subsidiaries are subject to restrictions on the payment of dividends under certain circumstances pursuant to their franchise agreements, dealer agreements, other agreements with manufacturers and floor plan agreements. For example, most of the agreements contain minimum working capital or net worth requirements and some manufacturers dealer agreements specifically prohibit distributions to us if the distribution would cause the dealership to fail to meet such manufacturer s capitalization guidelines, including net working capital. These restrictions limit our ability to apply profits generated from one subsidiary for use in other subsidiaries or, in some cases, at the parent company.

The concurrent Rule 144A/ Regulation S debt offering may not be completed on the terms contemplated or at all.

Concurrently with the common stock offering, we expect to issue $300.0 million aggregate principal amount of our senior subordinated notes pursuant to Rule 144A and Regulation S. The senior subordinated notes are not being and will not be registered under the Securities Act and may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. The equity offering is not contingent on the closing of the debt offering, but the debt offering is contingent on the closing of the equity offering. We cannot assure you that the offering of our senior subordinated notes will be completed on the terms presently contemplated or at all.

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FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus include, and public statements by our directors, officers and other employees may include, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. 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 terms, or the use of these ter 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;
- trends in the European automotive market;
- our plans and expectations with respect to Sytner;
- our ability to access the remaining availability under our credit agreement;
- our liquidity;
- 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 this prospectus under Risk Factors and additional risk factors identified from time to time in our periodic reports filed with the SEC. We urge you to carefully consider these risk factors in evaluating all forward-looking statements regarding our business. 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 SEC 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.

MANUFACTURER DISCLAIMER

No domestic or foreign manufacturer or distributor has been involved, directly or indirectly, in the preparation of this prospectus or in the offering being made hereby. No automobile manufacturer or distributor has made or been authorized to make any statements or representations in connection with this offering, no manufacturer or distributor has provided any information or materials that were used in connection with the offering, and no automobile manufacturer or distributor has any responsibility for the accuracy or completeness of this prospectus or for this offering.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the 3,000,000 shares of common stock offered by us will be approximately $63.8 million, based upon an assumed public offering price per share of $23.10 (the last reported sale price of our common stock on the New York Stock Exchange on March 8, 2002). Net proceeds is what we expect to receive after paying the underwriting discounts and the estimated offering expenses payable by us. We will not receive any proceeds from the sale of the shares by the selling stockholders.

We expect to use the net proceeds from the equity offering to reduce outstanding borrowings under the revolving portion of our credit agreement. Amounts repaid under the revolving portion of our credit agreement may be reborrowed. At March 8, 2002, the effective interest rates on borrowings under our credit agreement were between 3.86% and 4.86%. The revolving loans under the credit agreement mature on August 3, 2005. We incurred the debt under the revolving portion of our credit agreement to fund some of our acquisitions and working capital.

Concurrently with the offering of common stock, we plan to offer $300.0 million aggregate principal amount (which amount could be increased) of senior subordinated notes pursuant to Rule 144A and Regulation S under the Securities Act. We estimate that the net proceeds we will receive from the sale of the notes will be approximately $291.0 million, after paying the related discounts and estimated offering expenses payable by us. We expect to use the net proceeds from the debt offering to repay the term loans and a portion of the revolving loans under our existing credit agreement. Amounts repaid under our credit agreement may be reborrowed as revolving loans. The equity offering is not contingent on the closing of the debt offering, but the debt offering is contingent on the closing of the equity offering. The debt offering may not be consummated on the terms we presently contemplate or at all.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2001 (1) on an actual basis, (2) on an as adjusted basis, to reflect (a) the sale of 3,000,000 shares of common stock offered by us in this offering at an assumed offering price of $23.10 per share, less the estimated underwriting discount and related offering expenses payable by us, and (b) the exercise on February 1, 2002, of warrants to acquire 3,915,580 shares of voting common stock and 1,106,113 shares of non-voting common stock for an aggregate exercise price of $62.5 million, and (3) on an as adjusted basis, to further reflect the sale of $300.0 million of our senior subordinated notes in the concurrent debt offering, less the estimated discount and related offering expenses. The equity offering is not contingent on the closing of the debt offering, but the debt offering is contingent on the closing of the equity offering. You should read the following table along with the Management s Discussion and Analysis of Financial Condition and Results of Operations section and the consolidated financial statements and related footnotes included elsewhere in this prospectus.

	As of December 31, 2001		
	Actual	As Adjusted by Equity Offering and Warrant Exercise	As Further Adjusted by Debt Offering
		(unaudited)	(unaudited)
	(in millions, except share and per share data)		
Short-term debt, excluding floorplan notes payable(1)	$	$	$
Current portion of long-term debt	4.2	4.2	4.2
Total short-term debt	$ 4.2	$ 4.2	$ 4.2
Long-term debt (excluding current portion):			
Credit agreement(2)	$ 541.5	$ 415.2	$ 124.2
11% senior subordinated notes due 2007	3.7	3.7	3.7
Senior subordinated notes in concurrent offering			300.0
Other	6.6	6.6	6.6
Total long-term debt (excluding current portion)	551.8	425.5	434.5
Stockholders equity:			
Series A Preferred Stock, $0.0001 par value; 10,000 shares authorized, 8,794 shares issued and outstanding, actual; 7,021 shares issued and outstanding, as adjusted and as further adjusted			
Series B Preferred Stock, $0.0001 par value; 10,000 shares authorized, 649 shares issued and outstanding, actual, as adjusted and as further adjusted			
Common Stock, $0.0001 par value; 80,000,000 shares authorized, 23,540,231 shares issued and outstanding, actual; 32,228,678 shares issued and outstanding, as adjusted and as further adjusted(3)			
Non-voting Common Stock, $0.0001 par value; 7,125,000 shares authorized, no shares issued and outstanding, actual; 1,106,113 shares issued and outstanding, as adjusted and as further adjusted			
Class C Common Stock, $0.0001 par value; 20,000,000 shares authorized, no shares issued and outstanding, actual, as adjusted and as further adjusted			
Additional paid-in capital	445.3	571.6	571.6
Retained earnings	78.8	78.8	78.8
Accumulated other comprehensive loss	(8.4)	(8.4)	(8.4)

Total stockholders equity	515.7	642.0	642.0
Total capitalization	$ 1,067.5	$ 1,067.5	$ 1,076.5

(footnotes on following page)

(1) As of December 31, 2001, an aggregate of $620.0 million was outstanding under our floor plan facilities.

(2) As of March 8, 2002, $604.5 million was outstanding under our credit agreement, which includes (1) $135.0 million borrowed under our credit agreement and placed in escrow to pay for Sytner and (2) the receipt by us of $50.0 million through a sale-leaseback transaction with a related party.

(3) The number of shares of common stock and non-voting common stock outstanding after this equity offering excludes (a) 2,809,935 shares of common stock issuable upon the exercise of stock options outstanding as of March 8, 2002, at a weighted average exercise price of $12.87 per share (1,533,569 were exercisable as of March 8, 2002, and the balance become exercisable in the future based upon continued employment) and (b) 7,021,304 shares of Series A convertible preferred stock, which are convertible into 7,021,304 shares of common stock at any time, and 648.58834 shares of Series B convertible preferred stock, which are convertible into 648,588 shares of non-voting common stock at any time.

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DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to finance the growth and development of our business. Therefore, we do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future. In addition, the indentures governing our 11% senior subordinated notes, and the indenture that will govern any notes which may be issued in the concurrent debt offering, contain certain limitations on our ability to pay dividends. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. We are a holding company whose assets consist primarily of the direct or indirect ownership of the capital stock of our operating subsidiaries. Consequently, our ability to pay dividends is dependent upon the earnings of our subsidiaries and their ability to distribute earnings and other advances and payments to us. Also, pursuant to the automotive franchise agreements to which our dealerships are subject, our dealerships are generally required to maintain a certain amount of working capital, which could limit our subsidiaries ability to pay dividends. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, restrictions under any existing indebtedness and other factors the board of directors deems relevant.

PRICE RANGE OF OUR COMMON STOCK

Our common stock has been traded on the New York Stock Exchange under the symbol UAG since October 23, 1996. The following table shows the high and low per share sales prices of our common stock as reported on the New York Stock Exchange Composite Tape since January 1, 2000.

	High	Low
2000:		
First Quarter	$10.50	$ 7.19
Second Quarter	9.63	7.81
Third Quarter	9.81	7.50
Fourth Quarter	8.25	6.00
2001:		
First Quarter	$10.90	$ 6.50
Second Quarter	17.50	9.65
Third Quarter	21.95	10.10
Fourth Quarter	27.00	14.01
2002:		
First Quarter (through March 8, 2002)	$27.70	$20.20

On March 8, 2002, the last reported sale price of our common stock on the New York Stock Exchange was $23.10 per share. As of February 22, 2002, there were 251 holders of record of our common stock.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data as of and for each of the years ending December 31, 1997, 1998, 1999, 2000 and 2001, which has been derived from our audited consolidated financial statements. During the periods presented, we made a number of acquisitions, each of which has been accounted for using the purchase method of accounting. Accordingly, our financial statements include the results of operations of the acquired dealerships from the date of acquisition. As a result, our period to period results of operations vary depending on the dates of the acquisitions and this selected financial data is not necessarily indicative of our future results. You should read this selected consolidated financial data in conjunction with our audited consolidated financial statements and related footnotes included elsewhere in this prospectus.

	Year Ended December 31,				
	1997(1)	1998(2)	1999	2000	2001
	(in millions, except per share data)				
Consolidated Statement of Operations Data(3):					
Revenues					
New vehicle sales	$1,238.5	$1,958.9	$2,417.9	$2,971.5	$3,866.7
Used vehicle sales	589.1	922.8	1,040.0	1,227.6	1,488.1
Finance and insurance	74.2	127.4	165.8	193.1	253.7
Service and parts	190.8	334.1	398.8	491.8	612.2
Total revenues	2,092.6	3,343.1	4,022.5	4,884.0	6,220.7
Gross profit	276.4	455.6	549.4	678.0	851.2
Selling, general and administrative expenses	255.1	375.0	445.1	539.7	693.3
Operating income	21.3	80.6	104.3	138.3	157.9
Floor plan interest expense	(19.3)	(28.7)	(28.7)	(44.4)	(42.4)
Other interest expense	(14.1)	(31.5)	(29.3)	(32.8)	(34.8)
Other income (expense), net	0.3	4.8	2.6		
Income (loss) from continuing operations before minority interests, income tax (provision) benefit and extraordinary items	(11.8)	25.2	48.8	61.1	80.6
Minority interests	(0.1)	(0.3)	(0.7)	(0.5)	(0.8)
Income tax (provision) benefit	4.0	(11.6)	(21.4)	(26.6)	(35.1)
Income (loss) from continuing operations	(7.9)	13.4	26.7	34.0	44.7
Income (loss) from discontinued operations, net of income taxes	(2.2)	(12.9)			
Income (loss) before extraordinary items	(10.1)	0.4	26.8	34.0	44.7
Extraordinary items, net of income taxes		(1.2)	0.7	(4.0)	
Net income (loss)	$ (10.1)	$ (0.8)	$ 27.5	$ 30.0	$ 44.7
Basic income (loss) from continuing operations per common share	$ (0.44)	$ 0.66	$ 1.10	$ 1.46	$ 1.57
Basic net income (loss) per common share	$ (0.56)	$ (0.04)	$ 1.14	$ 1.26	$ 1.57
Income (loss) from continuing operations per diluted common share	$ (0.44)	$ 0.64	$ 1.01	$ 1.16	$ 1.31

Net income (loss) per diluted common share	$ (0.56)	$ (0.04)	$ 1.04	$ 1.02	$ 1.31
Shares used in computing basic share data	18.2	20.4	22.0	20.2	23.1
Shares used in computing diluted share data	18.6	20.9	26.5	29.4	34.2

(continued on following page)

	As of December 31,				
	1997	1998	1999	2000	2001
			(in millions)		
Balance Sheet Data:					
Working capital	$117.2	$ 85.2	$ 97.0	$ 93.1	$ 135.2
Inventories	324.3	410.3	508.3	737.9	641.4
Total assets	971.1	1,184.2	1,279.3	1,762.7	1,946.6
Floor plan notes payable	334.3	397.2	478.5	689.7	620.0
Total debt (excluding floor plan notes payable)	248.5	313.0	228.9	419.2	556.0
Total stockholders equity	300.6	341.7	430.9	461.7	515.7

(1) Includes a $31.7 million pre-tax charge recorded during 1997 to realign various elements of our business.

(2) Includes a $12.6 million pre-tax charge for estimated future repair costs under the terms of approximately 51,000 warranty and extended service contracts sold from January 1, 1997 to October 31, 1998.

(3) During 1998, we discontinued the auto finance business of our wholly-owned subsidiary, UAF. As a result, UAF no longer engages in the purchase or sale of automotive loans. Consequently, UAF has been reported as a discontinued operation for all periods presented.

(continued on following page)

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, including but not limited to those described under Risk Factors and included in other portions of this prospectus.

General

We are the third largest publicly-held automotive retailer in the United States as measured by total revenues. As of December 31, 2001, we owned and operated 127 franchises located primarily in major metropolitan areas in 19 states, Puerto Rico and Brazil. As an integral part of our dealership operations, we retail new and used automobiles and light trucks, operate service and parts departments, operate collision repair centers and sell various aftermarket products, including finance, warranty, extended service and other insurance contracts.

New vehicle revenues include sales to retail and fleet 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 leasing, other dealers and wholesalers. We generate finance and insurance revenues from sales of warranty policies, extended service contracts, other insurance policies, and accessories, as well as from fees for placing finance and lease contracts. Service and parts revenues include fees paid for repair and maintenance service, the sale of replacement parts and body shop repairs.

Our gross profit tends to vary with the mix of revenues we derive from new vehicle sales, used vehicle sales, finance and insurance revenues, and service and parts revenues. Our gross profit generally varies across product lines, with new vehicle sales usually resulting in lower gross profit margins and our other products resulting in higher gross profit margins. Factors such as seasonality, weather, cyclicality 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 department personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, depreciation, amortization, rent, insurance, utilities and other outside services. A significant portion of our selling expenses are variable (such as sales commissions), and a significant portion of our general and administrative expenses are subject to our control (such as advertising costs), allowing us to adjust them to reflect economic trends.

Floor plan interest expense relates to floor plan financing. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing.

We have made a number of dealership acquisitions in each year since 1999. 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.

Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. Retail revenues, which exclude revenues relating to fleet and wholesale transactions, increased by $1.3 billion, or 28.5%, from $4.4 billion to $5.7 billion. The overall increase in retail revenues is due primarily to: (1) a $328.9 million, or 9.1%, increase in retail revenues at dealerships owned prior to January 1, 2000, and (2) dealership acquisitions made subsequent to January 1, 2000, partially offset by a decrease in revenues resulting from the divestiture of certain dealerships. The overall increase in retail revenues at dealerships owned prior to January 1, 2000 reflects 10.3%, 6.2%, 19.4% and 4.2% increases in new retail vehicle, used retail vehicle, finance and insurance and service and parts revenues, respectively.

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Revenues of $520.1 million from fleet and wholesale transactions represent a 16.6% increase versus the prior year. The increase in fleet and wholesale revenues is due to acquisitions subsequent to January 1, 2000.

Retail sales of new vehicles, which exclude fleet transactions, increased by $865.9 million, or 30.5%, from $2.8 billion to $3.7 billion. The increase is due primarily to: (1) a $237.9 million, or 10.3%, increase at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 2000, is due primarily to a 7.6% increase in new retail unit sales and an increase in comparative average selling prices per vehicle. Aggregate retail unit sales of new vehicles increased by 25.2%, due principally to: (1) the net increase at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by the decrease due to divested dealerships. We retailed 141,056 new vehicles (67.1% of total retail vehicle sales) during the year ended December 31, 2001, compared with 112,676 new vehicles (65.9% of total retail vehicle sales) during the year ended December 31, 2000. Fleet revenues increased $29.4 million, or 22.5%, versus the comparable prior year period. The increase in fleet revenues is due primarily to: (1) a $10.9 million, or 8.7%, increase in fleet sales revenues at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships.

Retail sales of used vehicles, which exclude wholesale transactions, increased by $216.0 million, or 23.7%, from $912.0 million to $1.1 billion. The increase is due primarily to: (1) a $47.4 million, or 6.2%, increase at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 2000, is due primarily to a 5.2% increase in used retail unit sales and an increase in comparative average selling prices per vehicle. Aggregate retail unit sales of used vehicles increased by 19.0%, due principally to: (1) the net increase at dealerships owned prior to January 1, 2000, and (2) acquisitions made subsequent to January 1, 2000, partially offset by the decrease due to divested dealerships. We retailed 69,302 used vehicles (32.9% of total retail vehicle sales) during the year ended December 31, 2001, compared with 58,252 used vehicles (34.1% of total retail vehicle sales) during the year ended December 31, 2000. Wholesale revenues increased $44.5 million, or 14.1%, versus the comparable prior year period. The increase in wholesale revenues is due primarily to: acquisitions made subsequent to January 1, 2000; partially offset by (1) a $13.1 million, or 5.1%, decrease at dealerships owned prior to January 1, 2000 and (2) a decrease resulting from the divestiture of certain dealerships.

Finance and insurance revenues increased by $60.6 million, or 31.4%, from $193.1 million to $253.7 million. The increase is due primarily to: (1) a $26.8 million, or 19.4%, increase at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships.

Service and parts revenues increased by $120.4 million, or 24.5%, from $491.8 million to $612.2 million. The increase is due primarily to: (1) a $16.8 million, or 4.2%, increase at dealerships owned prior to January 1, 2000 and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $176.0 million, or 26.0%, from $675.5 million to $851.5 million. The increase in gross profit is due to: (1) a $45.9 million, or 8.5%, increase in retail gross profit at stores owned prior to January 1, 2000, and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships. Gross profit as a percentage of revenues on retail transactions decreased from 15.2% to 14.9%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.3%, 10.6%, 58.5%, and 44.9%, respectively, compared with 8.8%, 10.7%, 58.7% and 43.8% in the comparable prior year period. The decrease in gross profit as a percentage of revenues on retail transactions is primarily attributable to: (1) an increase in the relative proportion of lower margin new vehicle sales revenues to total retail vehicle revenues, (2) a decrease in the percentage of higher margin finance and insurance and service and parts revenues to total retail revenues, (3) decreased gross profit margins on new retail vehicle revenues, and (4) decreased gross profit margins on used retail vehicle revenues, partially offset by increased gross profit margins on service and parts revenues. Aggregate gross profit on fleet and wholesale transactions decreased by $2.8 million to a loss of $0.3 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $153.6 million, or 28.5%, from $539.7 million to $693.3 million. Such expenses as a percentage of total revenue were 11.1%, which is consistent with the prior year, and increased as a percentage of gross profit from 79.6% to 81.5%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $45.6 million, or 11.0%, increase at dealerships owned prior to January 1, 2000, and (2) acquisitions made subsequent to January 1, 2000, partially offset by a decrease resulting from the divestiture of certain dealerships. The increase in selling, general and administrative expenses at stores owned prior to January 1, 2000 is due in large part to increased selling expenses, including increased variable compensation, as a result of the 8.5% increase in retail gross profit over the prior year.

Floor Plan Interest Expense. Floor plan interest expense decreased by $2.0 million, or 4.4%, from $44.4 million to $42.4 million. The decrease in floor plan interest expense is due to (1) a $10.1 million, or 29.4%, decrease at stores owned prior to January 1, 2000 and (2) a decrease relating to the divestiture of certain dealerships, partially offset by acquisitions made subsequent to January 1, 2000. The decrease at stores owned prior to January 1, 2000 is due primarily to a decrease in inventory at dealerships owned prior to January 1, 2000, coupled with a decrease in our weighted average borrowing rate on floor plan indebtedness during 2001.

Other Interest Expense. Other interest expense increased by $2.0 million, or 6.1%, from $32.8 million to $34.8 million. The increase is due primarily to increased acquisition related indebtedness, offset in part by (1) a decrease in our weighted average borrowing rate during 2001, (2) the effect of refinancing our 11.0% senior subordinated notes due 2007 and certain other indebtedness with lower interest borrowings under our amended and restated credit agreement, dated as of December 22, 2000 and (3) the paydown of indebtedness with proceeds from equity offerings subsequent to December 31, 2000.

Income Taxes. Income taxes increased by $8.5 million from $26.6 million to $35.1 million. The increase is due to an increase in pre-tax income compared with 2000.

Extraordinary Item. The 2000 extraordinary loss of $4.0 million, net of $3.1 million of tax, represents a loss resulting from the redemption premium paid for the subordinated notes and the write-off of unamortized deferred financing costs relating thereto.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Revenues. Retail revenues, which exclude revenues relating to fleet and wholesale transactions, increased by $855.7 million, or 23.9%, from $3.6 billion to $4.4 billion. The overall increase in retail revenues is due primarily to: (1) a $196.1 million, or 6.2%, increase in retail revenues at dealerships owned prior to January 1, 1999 and (2) dealership acquisitions made subsequent to January 1, 1999, partially offset by a decrease in revenues resulting from the divestiture of some dealerships. The overall increase in retail revenues at dealerships owned prior to January 1, 1999, reflects 6.3%, 5.1%, 7.3% and 7.9% increases in new retail vehicle, used retail vehicle, finance and insurance and service and parts revenues, respectively. Revenues of $446.2 million from fleet and wholesale transactions were consistent with the prior year.

Retail sales of new vehicles, which exclude fleet sale transactions, increased by $593.0 million, or 26.4%, from $2.2 billion to $2.8 billion. The increase is due primarily to: (1) a $125.0 million, or 6.3%, increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of some dealerships. The increase at dealerships owned prior to January 1, 1999, is due primarily to a 4.0% increase in new retail unit sales and an increase in comparative average selling prices per vehicle. Aggregate retail unit sales of new vehicles increased by 20.8%, due principally to: (1) the net increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by the decrease due to divested dealerships. We retailed 112,676 new vehicles (65.9% of total retail vehicle sales) during the year ended December 31, 2000, compared with 93,259 new vehicles (64.2% of total retail vehicle sales) during the year ended December 31, 1999. Fleet sales decreased $39.5 million, or 23.2%, compared to the comparable prior year period due primarily to a 31.9% decrease in fleet unit sales.

Retail sales of used vehicles, which exclude wholesale transactions, increased by $142.3 million, or 18.5%, from $769.6 million to $912.0 million. The increase is due primarily to: (1) a $35.2 million, or 5.1%, increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 1999, is due primarily to a 1.5% increase in used retail unit sales and an increase in comparative average selling prices per vehicle. Aggregate retail unit sales of used vehicles increased by 12.0%, due principally to: (1) the net increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by the decrease due to divested dealerships. We retailed 58,252 used vehicles (34.1% of total retail vehicle sales) during the year ended December 31, 2000, compared with 52,027 used vehicles (35.8% of total retail vehicle sales) during the year ended December 31, 1999. Wholesale revenues increased $45.2 million, or 16.7%, compared to the comparable prior year period. The increase in wholesale revenues is due primarily to: acquisitions made subsequent to January 1, 1999, offset in part by (1) an $8.2 million, or 3.5%, decrease at dealerships owned prior to January 1, 1999, and (2) a decrease resulting from the divestiture of some dealerships.

Finance and insurance revenues increased by $27.4 million, or 16.5%, from $165.8 million to $193.1 million. The increase is due primarily to: (1) an $8.8 million, or 7.3%, increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of certain dealerships.

Service and parts revenues increased by $93.0 million, or 23.3%, from $398.8 million to $491.8 million. The increase is due primarily to: (1) a $27.1 million, or 7.9%, increase at dealerships owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of some dealerships.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $125.9 million, or 22.9%, from $549.6 million to $675.5 million. The increase in gross profit is due to: (1) a $30.6 million, or 6.5%, increase in retail gross profit at stores owned prior to January 1, 1999, and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of some dealerships. Gross profit as a percentage of revenues on retail transactions decreased from 15.3% to 15.2%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.8%, 10.7%, 58.7%, and 43.8%, respectively, compared with 8.6%, 11.1%, 58.8% and 43.4% in the comparable prior year period. The decrease in gross profit as a percentage of revenues on retail transactions is primarily attributable to: (1) an increase in the relative proportion of lower margin new vehicle sales revenues to total retail revenues during 2000 and (2) decreases in gross profit margins on used retail vehicle revenues; partially offset by increases in gross profit margins on new retail vehicle and service and parts revenues and an increase in service and parts revenues as a percentage of total revenues. Aggregate gross profit on fleet and wholesale transactions increased $2.6 million to $2.4 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $94.6 million, or 21.2%, from $445.1 million to $539.7 million. These expenses as a percentage of total revenues were 11.1%, which is consistent with the prior year, and decreased as a percentage of gross profit from 81.0% to 79.6%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $26.6 million, or 7.3%, increase at stores owned prior to January 1, 1999 and (2) acquisitions made subsequent to January 1, 1999, partially offset by a decrease resulting from the divestiture of some dealerships. The increase in selling, general and administrative expense at stores owned prior to January 1, 1999 is due in large part to increased selling expenses, including increased variable compensation, as a result of the 6.5% increase in retail gross profit over the prior year.

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Floor Plan Interest Expense. Floor plan interest expense increased by $15.7 million, or 54.9%, from $28.7 million to $44.4 million. The increase in floor plan interest expense is due to: (1) a $6.0 million, or 24.3%, increase at stores owned prior to January 1, 1999 and (2) acquisitions made subsequent to January 1, 1999, offset in part by decreases relating to (1) the effect of our interest rate swaps hedging floor plan interest rates and (2) the divestiture of certain dealerships. The increase at stores owned prior to January 1, 1999 is due to an increase in inventory levels compared to 1999 and an increase in our weighted average borrowing rate during 2000.

Other Interest Expense. Other interest expense increased by $3.4 million, or 11.7%, from $29.3 million to $32.8 million. The increase is due primarily to increased acquisition related indebtedness, offset in part by (1) the effect of refinancing the subordinated notes and certain other indebtedness with lower interest borrowings under our credit agreement and (2) the paydown of indebtedness with proceeds from equity offerings during 1999.

Income Taxes. Income taxes increased by $5.1 million from $21.4 million to $26.6 million. The increase is due to an increase in pre-tax income compared with 1999, offset in part by a decrease in our estimated annual effective income tax rate. The decrease in the comparative effective rate is due primarily to a decrease in our estimated effective state tax rate resulting from certain tax planning initiatives and a change in the geographic mix of our earnings.

Extraordinary Item. The $4.0 million extraordinary item in 2000 represents a loss resulting from the redemption premium paid for the subordinated notes and the write-off of unamortized deferred financing costs relating to the subordinated notes. The $0.7 million extraordinary item in 1999 represents the after tax gain arising from the retirement of $49.0 million of subordinated notes, offset in part by the write-off of a portion of the deferred financing costs relating to the subordinated notes.

Quarterly Financial Data

The following table shows selected income statement data for the last eight quarters:

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(in millions, except per share data)			
2001				
Total revenues	$1,395.0	$1,615.2	$1,595.8	$1,614.7
Gross profit	191.8	219.0	221.1	219.3
Net income	6.6	13.4	13.5	11.3
Net income per diluted common share	$ 0.21	$ 0.40	$ 0.38	$ 0.32

	Three Months Ended			
	March 31	**June 30(1)**	**September 30**	**December 31**
	(in millions, except per share data)			
2000(2)				
Total revenues	$1,110.8	$1,204.1	$1,331.2	$1,237.9
Gross profit	152.1	166.8	182.6	176.5
Net income	5.6	7.1	11.2	6.1
Net income per diluted common share	$ 0.19	$ 0.24	$ 0.40	$ 0.21

(1) We recorded a $4.0 million extraordinary loss in the second quarter of 2000 resulting from the redemption premium paid for the subordinated notes and the write-off of unamortized financing costs relating to the subordinated notes.

(2) Per share amounts are calculated independently for each of the quarters presented. As a result, the sum of the quarters is not equal to the full year per share amounts.

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Liquidity and Capital Resources

Our cash requirements are primarily for working capital, the acquisition of new dealerships, the improvement and expansion of existing facilities and the construction of new facilities. Historically, these cash requirements have been met through borrowings under our credit agreement, the issuance of debt securities, including floor plan notes payable, sale-leaseback transactions, the issuance of equity securities and cash flow from operations. At December 31, 2001, we had working capital of $135.2 million.

We finance the majority of our new and a portion of our used vehicle inventory under revolving floor plan financing arrangements into which our subsidiaries have entered with various lenders. We make monthly interest payments on the amount financed, but are generally not required to make loan principal repayments prior to the sale of the new and used vehicles we have financed. The floor plan agreements grant a security interest in substantially all of the assets of our domestic automotive dealership subsidiaries. Interest rates on the floor plan arrangements are variable and increase or decrease based on movements in the prime rate or LIBOR. As of December 31, 2001, our outstanding borrowings under floor plan arrangements amounted to $620.0 million.

Our credit agreement with DaimlerChrysler Services North America LLC and Toyota Motor Credit Corporation provides for revolving loans to be used for acquisitions, working capital, the repurchase of common stock and general corporate purposes. Upon completion of this offering, our borrowing capacity under the revolving portion of the credit agreement will be $700.0 million and, in addition, we will have use of a standby letter of credit facility in the amount of $50.0 million. Our credit agreement also provides for a term loan of $161.0 million, all of which was used during 1999 and 2000 to repurchase our senior subordinated notes. Loans under the credit agreement bear interest between LIBOR plus 2.00% and LIBOR plus 3.00%. The credit agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic automotive dealership subsidiaries (and will be guaranteed by domestic automotive dealership subsidiaries acquired or established by us in the future) 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. In addition, we are required to comply with specified ratios and tests, including debt to equity, debt to EBITDA (as defined) and minimum working capital covenants. Our credit agreement also contains typical events of default including change of control and non-payment of obligations. Substantially all of our assets are subject to security interests granted to lenders under the credit agreement. The availability under the revolving portion of the credit agreement is subject to a collateral-based borrowing limitation which is determined based on certain of our allowable tangible assets (which does not include foreign assets). Revolving loans mature on August 3, 2005. With respect to the $161.0 million of term loans, $25.0 million must be repaid on December 23, 2003, $25.0 million must be repaid on December 23, 2005, and the remainder must be repaid on December 23, 2007. As of December 31, 2001, our outstanding borrowings under the credit agreement amounted to $541.5 million, $161.0 million of which was incurred in connection with the repurchase of notes. As of March 8, 2002, our outstanding borrowings under the credit agreement amounted to $604.5 million, which includes debt repayments subsequent to December 31, 2001 of $62.5 million (proceeds of warrants) and $50.0 million (sale-leaseback proceeds), and borrowings of $135.0 million placed in escrow to pay for Sytner.

In October 2001, we entered into swap agreements of approximately four years duration pursuant to which a notional $400.0 million of our floating rate debt was exchanged for fixed rate debt. The fixed rate interest to be paid by us is based on LIBOR and amounts to approximately 4.23%. During 2000, we entered into a swap agreement of five years duration pursuant to which a notional $200.0 million of our floating rate debt was exchanged for fixed rate debt for five years. The fixed rate interest to be paid by us is based on LIBOR and amounts to approximately 7.1%.

In 1997, we issued $200.0 million of 11.0% senior subordinated notes due 2007. In 1999, we redeemed $49.0 million of the notes. In 2000 we completed a tender offer in which we repurchased $147.3 million of the notes at a redemption price of 101% of the principal amount of the subordinated notes. The indentures

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governing the subordinated notes require us to comply with specified debt service coverage ratio levels in order to incur incremental indebtedness. Such indentures also limit our ability to pay dividends based on a formula that takes into account, among other things, our consolidated net income, and contain other covenants which restrict our ability to purchase capital stock, incur liens, sell assets and enter into other transactions. The subordinated notes are fully and unconditionally guaranteed on a joint and several basis by our domestic automotive dealership subsidiaries. As of December 31, 2001, $3.7 million of subordinated notes remain outstanding. The notes become redeemable at our option, with payment of a premium, on July 15, 2002.

In connection with the concurrent debt offering, we intend to issue $300.0 million of senior subordinated notes pursuant to Rule 144A and Regulation S. These notes will mature in 2012. The notes will be unsecured senior subordinated notes and will rank behind all of our existing and future senior debt, including debt under our credit agreement. The notes will be guaranteed by substantially all of our domestic subsidiaries on a senior subordinated basis. We will be able to redeem all or some of the notes at our option beginning in 2007 at specified redemption prices. In addition, until 2005 we will be allowed to redeem up to 35% of the notes with the net cash proceeds from specified public equity offerings. 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 will also contain customary negative covenants and events of default. We will be required to file a registration statement with the SEC and offer to exchange publicly-traded notes with the notes being privately issued. We will be required to pay penalty interest on the notes to the extent we do not comply with these registration requirements. The concurrent debt offering may not be consummated on the terms described in this prospectus or at all.

On April 12, 1999, we entered into a securities purchase agreement with International Motor Cars Group I, L.L.C. and International Motor Cars Group II, L.L.C., Delaware limited liability companies controlled by Penske Capital Partners, L.L.C. (together, the PCP Entities), pursuant to which the PCP Entities agreed to purchase (1) an aggregate of 7,903.124 shares of our Series A convertible preferred stock, par value $0.0001 per share, (2) an aggregate of 396.876 shares of our Series B convertible preferred stock, par value $0.0001 per share, and (3) warrants to purchase (a) 3,898,665 shares of common stock and (b) 1,101,335 shares of our non-voting common stock, par value $0.0001 per share, for $83.0 million.

The shares of Series A preferred stock and Series B preferred stock entitle the PCP Entities to dividends at a rate of 6.5% per year. The dividends were payable in kind for the first two years after issuance and are currently payable in cash. The Series A preferred stock is convertible into an aggregate of 8,794,171 shares of common stock (7,021,304 shares following this offering) and the Series B preferred stock is convertible into an aggregate of 648,588 shares of non-voting common stock (in each case, after giving effect to payable in kind dividends). We are entitled under some circumstances to redeem the preferred stock after May 3, 2002, for an amount per share equal to the liquidation preference. The liquidation preference is currently $10,000 per share plus accrued and unpaid dividends. Actual cash dividends payable relating to dividends earned during fiscal 2001 in connection with the preferred stock totaled $3.1 million. Beginning in fiscal 2002, the aggregate annual cash dividends payable by us are expected to total $6.1 million. Funding for such dividends is expected to come from cash flow from operations and working capital borrowings under our credit agreement.

The warrants, as originally issued to the PCP Entities, were exercisable at a price of $12.50 per share until February 3, 2002, and $15.50 per share thereafter until May 2, 2004. Pursuant to the anti-dilution provisions of the warrants and as a result of the sale of equity to Mitsui & Co. in 2001, (a) the number of warrants to purchase common stock was increased from 3,898,665 shares to 3,915,580 shares, (b) the number of warrants to purchase non-voting common stock was increased from 1,101,335 shares to 1,106,113 shares, and (c) the warrant exercise price was lowered from $12.50 to $12.45. On February 1, 2002, the PCP Entities exercised the warrants in full and paid us the full exercise price of $62.5 million. The proceeds of the warrant exercise were used to pay down indebtedness.

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In December 2000, we issued 2,139,535 shares of common stock to Penske Corporation for $10.75 per share. Aggregate proceeds, amounting to $23.0 million, were used to reduce debt. In February 2001, we issued 1,302,326 shares of voting common stock to Mitsui & Co., Ltd. and Mitsui & Co. (U.S.A.), Inc. in a private placement for $10.75 per share (the Mitsui Transaction). Aggregate proceeds, amounting to $14.0 million, were used to reduce debt.

In September 2001, we announced that our board of directors authorized the repurchase of up to three million shares of our outstanding common stock. Pursuant to that authorization, we repurchased 387,092 shares through open market purchases and negotiated transactions at an aggregate cost of $5.8 million during 2001.

During 2001, net cash provided by operations amounted to $72.4 million. Net cash used in investing activities during 2001 totaled $221.8 million, of which $83.4 million related to capital expenditures and $138.4 million was for acquisitions. Net cash provided by financing activities during 2001 totaled $147.3 million, relating to: (1) net borrowings of $134.3 million for capital expenditures and acquisitions and (2) $18.8 million relating to the issuance of voting common stock, partially offset by $5.8 million used to repurchase common stock.

We have a number of capital projects planned or underway relating to the expansion and renovation of our retail automotive operations. Gross cash expenditures during 2002 relating to such projects are estimated to aggregate to $130.0 million, a portion of which has already been spent. Historically, we have financed such capital expenditures with borrowings under our credit agreement and cash flow from operations. In the past, we have also entered into sale-leaseback transactions with Automotive Group Realty, LLC (AGR), a wholly owned subsidiary of Penske Corporation. We sold certain properties to AGR in 2001 for consideration of $20.9 million and made lease payments to AGR totaling $5.8 million during 2001, which payments relate to properties we lease from AGR. We believe we will continue to finance certain capital expenditures in this fashion during 2002. As a result we anticipate that the net cash we will fund for capital expenditures will amount to approximately $70.0 million.

During 2002, we received $50.0 million from AGR representing consideration relating to the sale-leaseback of certain properties and related capital expenditures, including capital expenditures at properties previously sold to AGR, which cost us $29.9 million. The excess of the cash received by us represents a prepayment by AGR to us for future contractually committed construction costs that we anticipate will be incurred by us during the first quarter of 2002 at properties owned by AGR and leased to us.

In addition, we have entered into a number of arrangements to acquire retail automotive franchises from unaffiliated third parties. Funding for the cash element of these acquisitions, expected to approximate $19.0 million, is expected to come from cash flow from operations and borrowings under our credit agreement. We also have obligations with respect to past acquisitions totaling $32.0 million over the next four years.

In connection with the proposed acquisition of Sytner, as an alternative to receiving all or any part of the £95.3 million of cash consideration which would otherwise be receivable under the offer, Sytner shareholders (other than certain non-U.K. shareholders) who validly accept the offer may elect to receive loan notes issued by UAG UK Holdings Limited. For every £1 of cash consideration otherwise receivable under the offer, Sytner shareholders can elect to receive £1 of loan notes.

In connection with one of the acquisitions consummated during 2001, we agreed to make a contingent payment in cash to the extent the 289,240 shares of common stock issued in connection with the acquisition have a market value at the time of sale of less than $17.29 per share. In addition, we agreed to make a contingent payment in cash to the extent the 841,476 shares of common stock issued in connection with an acquisition completed in 2000 have a market value at the time of sale of less than $12.00 per share.

In connection with an acquisition of dealerships in October 1997, we agreed that if the acquired companies achieved aggregate specified base earnings levels in any of the five years beginning with the year ending December 31, 1999, we would pay to the sellers $0.7 million plus defined percentages of the amounts earned in excess of such base earnings for any such year. The total amount of payments to be made pursuant to this agreement is limited to $7.0 million. To date we have paid $2.0 million relating to this agreement.

As of December 31, 2001, we had approximately $5.4 million of cash available to fund operations and future acquisitions. In addition, a maximum of $336.5 million was available for borrowing under our credit agreement as of March 8, 2002, which availability is subject to the credit agreement s borrowing base collateral limitation (in general, the borrowing base equals certain of our allowable tangible assets plus $300.0 million). The borrowing base limitations currently limit our ability to access the full availability under our credit agreement. In the past twelve months, the actual availability which we could access under the credit agreement ranged from a high of $156.5 million on February 12, 2002 prior to borrowing $135.0 million for the Sytner acquisition to a low of $11.5 million on March 8, 2002. When availability under the credit agreement is low, we rely on cash flow from operations and the availability of floor plan financing to fund our day-to-day cash needs. If the equity offering is completed but the debt offering is not, actual availability under the credit agreement will increase by an additional $63.8 million. If both the equity and debt offerings are completed on the terms presently contemplated, actual availability under the credit agreement will increase by approximately $354.8 million

We are a holding company whose assets consist primarily of the direct or indirect ownership of the capital stock of our operating subsidiaries. Consequently, our ability to pay dividends is dependent upon the earnings of our subsidiaries and their ability to distribute earnings and other advances and payments to us. The minimum working capital requirements of our franchise agreements could in some cases restrict the ability of our subsidiaries to make distributions, although to date we have not faced any such restrictions.

Our principal source of growth has come from acquisitions of automotive dealerships. We believe that our existing capital resources, including the liquidity provided by our credit agreement and floor plan financing, together with the proceeds of this equity offering and the concurrent debt offering, which will be used to repay existing indebtedness, will be sufficient to fund our current operations and commitments for the next twelve months. To the extent we pursue additional significant acquisitions or we do not consummate the concurrent debt offering, 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 agreement to finance significant additional acquisitions. In certain circumstances, a public equity offering could require the prior approval of several 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.

Joint Ventures

From time to time we enter into joint venture arrangements in the ordinary course of business, pursuant to which we acquire dealerships together with a minority investor.

In January 1998, we entered into a joint venture agreement with a third party to manage and acquire certain dealerships in Illinois, Ohio, North Carolina and South Carolina. With respect to any joint venture established pursuant to this agreement, we are required to buy out the other party at the end of the five-year period following the date of the acquisition. Pursuant to this arrangement, in 1998 we entered into a joint venture with respect to the Citrus Chrysler dealership. We are required to buy out the other party in May 2003. We expect this payment to be approximately $3.0 million.

In November 1999 we formed a joint venture to own and operation certain dealerships in Brazil. Our joint venture partners in Brazil are Roger S. Penske, Jr. and Andre Ribeiro Holdings, Ltda. We contributed approximately $3.6 million for a 90.6% interest in United Auto do Brasil, Ltda. and Mr. Penske, Jr. and Mr. Ribeiro each contributed approximately $0.4 million for a 4.7% interest.

In October 2000, we purchased the operating assets of certain dealerships in Fairfield, Connecticut for approximately $26.8 million. We intend to sell 20% of this venture to Lucio A. Noto and other investors

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for approximately $5.4 million, representing 20% of the consideration we paid inclusive of assets acquired. Mr. Noto will pay for this interest with $1.2 million at closing and the remaining $4.2 million will be paid in quarterly payments over twenty years. The payments will be offset from permitted periodic cash distributions to Mr. Noto by the venture. The sale of the minority interest to Mr. Noto is subject to approval by the manufacturers.

In December 2000 we formed a joint venture with Roger Penske, Jr. to own and operate certain Mercedes Benz, Audi and Porsche dealerships. We contributed $65.1 million for a 90% interest in HBL, LLC and Mr. Penske, Jr. contributed $7.2 million for the remaining 10% interest.

In July 2001 we invested in the Tulsa Auto Collection, a group of dealerships in Tulsa, Oklahoma. The Tulsa Auto Collection consists of seven dealerships representing the Ford, Lincoln-Mercury, Jaguar and Mazda brands. In addition, through the Tulsa Auto Collection, we operate two automotive care service centers and two used vehicle facilities in the Tulsa market. According to the terms of our joint venture arrangement, we have the option to buy out our partner over a period of time. Through December 2003, we also may, at our option, cause our partner to purchase our share of the collection or sell our share or the entire collection to a third party.

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.

Seasonality

Our business is modestly seasonal overall. Our 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 harsh winters. Accordingly, we expect our revenues and profitability to be generally lower in our first and fourth quarters as compared to our second and third quarters. The greatest seasonalities exist with the dealerships in the northeast United States, for which the second and third quarters are the strongest with respect to vehicle-related sales. The service and parts business at all dealerships experiences relatively modest seasonal fluctuations.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 141, *Business Combinations (SFAS No. 141),* and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets (SFAS No. 142),* were issued in final form in June 2001. The provisions of SFAS No. 141, which require use of the purchase method of accounting and eliminate the use of the pooling-of-interests method of accounting for business combinations, apply to all business combinations completed after June 30, 2001. In addition, SFAS No. 141 includes transition provisions that apply to business combinations accounted for using the purchase method which were completed before July 1, 2001.

The provisions of SFAS No. 142, which address the financial accounting and related reporting for acquired goodwill and other intangible assets, are effective for fiscal years beginning after December 15, 2001. SFAS No. 142, which we adopted on January 1, 2002, eliminates goodwill amortization over its estimated useful life. However, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. Additionally, acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquiror s intent to do so. Intangible assets with definitive lives will need to be amortized over their useful lives.

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By March 31, 2002, companies are required to begin to perform an impairment analysis of intangible assets. Furthermore, companies must complete the first step of the goodwill transition impairment test by June 30, 2002. Impairment charges, if any, that result from the application of the above tests would be recorded as the cumulative effect of a change in accounting principle in the first quarter of the year ending December 31, 2002.

We are in the process of evaluating the impact of SFAS No. 142 on our business. At the present time we cannot determine the ultimate impact of SFAS No. 142. Amortization of goodwill for the year ended December 31, 2001 was $19.7 million.

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) was issued in August 2001. This statement supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and establishes accounting standards for the impairment and disposal of long-lived assets and criteria for determining when a long-lived asset is held for sale. The statement removes the requirement to allocate goodwill to long-lived assets to be tested for impairment, requires that the depreciable life of a long-lived asset to be abandoned be revised in accordance with Accounting Principals Board Opinion No. 20, Accounting Changes, provides that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the impact of adopting SFAS No. 144 on our financial statements.

Effects of Inflation

We believe that the relatively moderate rates of inflation 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. We do not believe that we would be placed at a competitive disadvantage should interest rates increase due to increased inflation since most other automotive dealerships have similar floating rate borrowing arrangements.

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 credit agreement bear interest at a variable rate based on a margin over LIBOR. Based on the amount outstanding as of December 31, 2001, a 100 basis point change in interest rates would result in an approximate $5.4 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. Based on the average aggregate outstanding amounts under floor plan financing arrangements during the year ended December 31, 2001, a 100 basis point change in interest rates would result in an approximate $6.6 million change to our annual floor plan interest expense.

In October 2001, we entered into swap agreements of approximately four years duration pursuant to which a notional $400.0 million of our floating rate debt was exchanged for fixed rate debt. The fixed rate interest to be paid by us is based on LIBOR and amounts to approximately 4.23%. During 2000, we entered into a swap agreement of five years duration pursuant to which a notional $200.0 million of our floating rate debt was exchanged for fixed rate debt for five years. The fixed rate interest paid by us is based on LIBOR and amounts to approximately 7.15%. For fixed rate debt including the notes, certain seller financed promissory notes and obligations under certain capital leases, interest rate changes effect the fair market value of such debt, but do not impact our earnings or cash flows.

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Foreign Currency Exchange Rates. Substantially all of our business is conducted in the United States where our revenues and expenses are transacted in U.S. dollars. As a result, the majority of our results of operations are not subject to foreign exchange rate fluctuations. We do not hedge against foreign exchange rate fluctuations due to the limited financial exposure we face with respect to such risk. In common with other automotive retailers, we purchase certain of our new vehicle inventories from foreign manufacturers. Our business in this regard 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. Our future results could be materially and adversely impacted by changes in these or other factors.

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BUSINESS

We are the third largest publicly-held automotive retailer in the United States as measured by total revenues. As of December 31, 2001, we owned and operated 127 franchises located primarily in major metropolitan areas in 19 states, Puerto Rico and Brazil. We offer a full range of 29 vehicle brands, with 68% of our new vehicle revenues in 2001 generated from the combined sale of foreign brands and luxury brands such as Honda, Toyota, BMW, Lexus and Mercedes. In addition to selling new and used vehicles, we generate revenue at each of our dealerships through the sale of higher-margin products, such as finance, insurance and vehicle service contracts, maintenance and repair services, replacement parts and aftermarket automotive products.

Much of our growth and success over the last three years has resulted from the experienced leadership of Roger S. Penske and his management team. Since May 1999, Mr. Penske, through Penske Corporation, has invested approximately $175 million in our common stock and other equity securities. After giving effect to this offering, Mr. Penske, directly and through Penske Corporation, will beneficially own approximately 44% of our common stock. Since assuming leadership, Mr. Penske s management team has: improved same store retail revenues by an average rate of 9.4% per year over the past three years; acquired 52 franchises which generated approximately $2.0 billion in total revenues in 2001; grown total revenues from $3.3 billion in 1998 to $6.2 billion in 2001; and increased our income from continuing operations per diluted common share from $0.64 in 1998 to $1.31 in 2001.

Business Strengths

We believe the following key strengths are critical to our success as a leading automotive retailer:

Favorable Brand Mix. In recent years, foreign and luxury vehicle brands have gained significant market share from domestic vehicle brands. We have successfully pursued an acquisition strategy that provides us with the highest concentration of revenues from foreign brands among the publicly-traded automotive retailers. In 2001, approximately 68% of our new vehicle sales were comprised of foreign brands (including luxury brands, which generate higher margins for our dealerships), while, industry-wide, about 37% of U.S. new vehicle sales consisted of foreign brands. We believe our mix favoring foreign and luxury brands provides us with an opportunity to improve same store retail sales revenues and gross profits, as these brands generally earn higher margins, and have higher parts, service and repair penetration rates.

The following charts compare our new vehicle revenue by brand in 2001 with our new vehicle revenue by brand in 1999, in each case, as a percentage of our total new vehicle sales.

	1999	2001
Toyota	23%	23%
Honda/ Acura	6	13
Lexus	7	7
Nissan/ Infiniti	9	7
Mercedes		6
BMW	5	5
Other Foreign Brands	6	7
Total Foreign Brands	56	68
General Motors	16	14
Chrysler	21	11
Ford	7	7
Total Domestic Brands	44	32
Total	100%	100%

Consistent Record of Internal Growth and Proven Acquisition Strategy. We grow our business through both internal expansion and acquisitions with the goal of enhancing brand and geographic diversity, reducing redundant costs and increasing return on investment. We continually focus on improving the revenue potential of our existing dealerships. We place a strong emphasis on customer service and have made substantial improvements in our facilities, including premier showrooms and displays. Over the past three years, we have demonstrated strong internal growth, which has resulted in increases in average same store retail revenue of 9.9% for new vehicles, 8.0% for used vehicles, 17.2% for finance and insurance and 7.2% for service and parts.

In addition to improving our existing dealerships, we are committed to identifying, consummating and integrating attractive acquisitions. We follow a disciplined and systematic approach when evaluating acquisition opportunities and consistently analyze numerous factors including the following:

- overall fit with operating strategy;
- optimization of brand and product mix; and
- strategic geographic location and future growth potential.

Our larger acquisitions are generally well-established, multi-franchise dealership groups that demonstrate leadership in attractive markets where we do not currently have a strong presence. Our smaller or single dealership acquisitions are usually complementary dealerships in our existing markets that enable us to expand our brand and product offerings and gain operating efficiencies and cost savings. As a result of our acquisition strategy, we have increased our revenue mix of foreign vehicle brands from 56% of new vehicle sales in 1999 to 68% in 2001, thereby increasing our sales in the growing foreign vehicle segment.

Diversified Revenue Stream and Variable Cost Structure. We believe that our diversified revenue mix helps to mitigate the cyclicality of new vehicle sales and that our variable cost structure affords us flexibility in responding to economic cycles, enhancing our overall profitability. Sales of used vehicles, service and parts and finance and insurance products represented approximately 38% of our total revenues and generated approximately 63% of our gross profit in 2001. We believe that demand for these products and services, which tend to produce higher margins than our new vehicle sales, is less affected by economic cycles than demand for new vehicles. Our dealership operations are also diversified both in terms of the brands of vehicles they offer and geographic location. Our dealerships are primarily located within five domestic geographic regions, with no single region accounting for more than 30% of our total revenues during 2001. In addition, approximately 68% of our operating expenses are variable expenses, such as compensation, floor plan interest expense and advertising, which we can adjust to reflect economic trends. Currently, gross profit generated from our service and parts business absorbs a substantial portion of our total operating expenses, excluding salespersons compensation.

Experienced, Growth-Oriented Management Team. In May 1999, Roger S. Penske, a 37-year automotive industry veteran, became our Chairman and Chief Executive Officer and strengthened our management team with individuals having extensive experience in the automotive retail industry. Mr. Penske has substantial experience as a leading operator in the automotive industry and a proven record of successful integration of acquired businesses. Under Mr. Penske s leadership:

- We appointed five regional presidents, with an average of 23 years of automotive industry experience, who have full responsibility for the oversight of dealership operations, human resources and training in each of our five regions. Each of these regional presidents has had direct dealership management experience, with three of them being previous owners of dealerships we acquired.
- We assigned six brand managers who are responsible for developing and maintaining strong relationships with automobile manufacturers.
- We purchased and successfully integrated 52 franchises.

Outstanding Customer Service. We maintain superior levels of customer satisfaction by providing high-quality products and services to meet our customers needs. Our experienced management team and the corporate culture created and driven by Roger S. Penske enable us to provide outstanding customer service and to forge lasting relationships with our customers, which we believe increase our repeat and referral business. Approximately 75% of our franchises met or exceeded the customer sales satisfaction scores compiled by each of the manufacturers in 2001. Furthermore, we believe that our high customer satisfaction results have directly contributed to our significant increases in same store sales.

Business Strategy

Our objective is to be the most profitable, growth-oriented automotive retailer in each of the markets in which we operate. To achieve this objective, we intend to expand our existing business platform and continue to grow our higher-margin businesses, expand through targeted acquisitions, implement best practices , and emphasize customer service.

Expand Existing Business Platform and Grow Higher-Margin Businesses. In addition to continuing to focus on the growth of same store sales at each