UNITED AUTO GROUP INC
Form S-3
February 06, 2002

Table of Contents

As filed with the Securities and Exchange Commission on February 6, 2002

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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:

David Foltyn, Esq. **Honigman Miller Schwartz and Cohn LLP** **2290 First National Building** **660 Woodward Ave.** **Detroit, Michigan 48226-3583** **(313) 465-7380 (telephone)** **(313) 465-7381 (facsimile)**	**Valerie Ford Jacob, Esq.** **Fried, Frank, Harris, Shriver & Jacobson** **One New York Plaza** **New York, NY 10004** **(212) 859-8000**

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
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.

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.

TABLE OF CONTENTS

Table of Contents

SUBJECT TO COMPLETION, DATED FEBRUARY 6, 2002.

PROSPECTUS

6,000,000 Shares

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 February 5, 2002 was $23.90 per share.

Concurrently with the common stock offering, we expect to offer $200.0 million aggregate principal amount of senior subordinated notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933. Neither the equity offering nor the debt offering is contingent on the closing of the other.

See Risk Factors beginning on page 8 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. **Stephens Inc.**

The date of this prospectus is , 2002.

Table of Contents

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 the 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 sale of foreign 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 and his affiliates have invested approximately $175 million in our common stock and other equity securities. 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 and have generated 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.

Table of Contents

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 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 franchised locations 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 significant recent improvements 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 approximately $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.

Continued Growth 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 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 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.

Table of Contents

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.

Concurrent Debt Offering

Concurrently with the common stock offering, we expect to offer $200.0 million aggregate principal amount of senior subordinated notes pursuant to Rule 144A and Regulation S of the Securities Act. Neither the equity offering nor the debt offering is contingent on the closing of the other. The debt offering may not be completed on the same terms described in this prospectus, or at all.

Table of Contents

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	33,173,067 shares
Use of Proceeds	We estimate that our net proceeds from this equity offering will be approximately $66.0 million. We intend to use these net proceeds to reduce debt. 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 excludes:

2,404,601 shares of common stock issuable upon the exercise of stock options outstanding as of February 5, 2002, at a weighted average exercise price of $11.98 per share (1,421,239 were exercisable as of February 5, 2002 and the balance become exercisable in the future based upon continued employment); and

7,294.17076 shares of Series A convertible preferred stock, which are convertible into 7,294,171 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.

Summary Consolidated Financial Data

The summary consolidated financial data below should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the 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	As Further Adjusted by Debt Offering
		(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	1,946.6
Floor plan notes payable	620.0	620.0	620.0
Total debt (excluding floor plan notes payable)	556.0	427.5	437.5

Total stockholders equity	515.7	644.2	644.2

(1) Includes a $31.7 million pre-tax charge recorded during 1997 to realign certain 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, 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 accounting principles generally accepted in the United States, 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.

Table of Contents

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, 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 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.

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 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.

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 may subject us to unforeseen liabilities that we are unable to detect prior to completing the acquisition or

Table of Contents

liabilities that turn out to be greater than those we had expected. Until we assume operating control of acquired entities, we may not be able to ascertain the actual value of the acquired entity.

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 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. 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 may 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. 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 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 the applicable dealership s vehicle inventories and the proceeds of the vehicles 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% 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% ownership interest in us and the manufacturer objects to that acquisition within 60 days. Similarly, several manufacturers, such as Nissan, Toyota, Mercedes, General Motors 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 Toyota, Honda, DaimlerChrysler, Ford, General Motors, and Jaguar, continue to prohibit changes in ownership that may affect control of our company.

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.

Table of Contents

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.

In addition to competition for vehicle sales, our dealerships compete with franchised dealerships to perform warranty repairs and with other automobile dealers, franchised and independent service center chains and independent garages for non-warranty repair and routine maintenance business. Our dealerships compete with other automobile 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 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 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.

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 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.

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

Table of Contents

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 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, 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.

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 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

Table of Contents

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.

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

We are subject to a wide range of 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 automobile 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. 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.

Upon completion of the equity offering, Penske Corporation, Penske Capital Partners, L.L.C. and various of their affiliates will have voting power with respect to over 59% 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.

Table of Contents

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. 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. 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 $437.5 million of indebtedness outstanding and $620.0 million of floor plan notes payable outstanding. Our debt instruments also permit us to incur additional debt in the future. Our ability to meet our debt service obligations depends on our future performance, which will be impacted by general economic conditions and by financial, business and other factors, many of which are beyond our control. If we are unable to service our debt, 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.

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.

Table of Contents

Due to the nature of the automobile retailing business, we may be involved in legal proceedings 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.

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 33,173,067 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 7,942,759 shares of common stock. Of these shares, 12,843,786 shares will be subject to lockup agreements with the underwriters which will restrict the sale of these shares for 90 days, and 16,653,974 additional shares 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 shares held by persons deemed to be affiliates of us. 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 expect to file a shelf registration statement with respect to up to shares of common stock for the benefit of the selling stockholders no earlier than the 46th day after the date of this prospectus, and to have such registration statement declared effective on the 90th day after the date of this prospectus. In addition, we expect that we will file a registration statement registering an additional shares of common stock for the benefit of the selling stockholders which may be declared effective no earlier than one year after the execution of the agreement. In addition, the holders of shares 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, 2,404,601 shares of our common stock are issuable under currently outstanding stock options granted to 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.

Table of Contents

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 pursuant to their franchise agreements and floor plan agreements. 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 $200.0 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. Neither the equity offering nor the debt offering is contingent on the closing of the other. We cannot assure you that the offering of our senior subordinated notes will be completed on the terms presently contemplated or at all.

CAUTIONARY STATEMENT ABOUT 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 statements with respect to

- our future financial performance;
- future acquisitions;
- future capital expenditures;
- our ability to obtain cost savings and synergies;
- trends in the automotive retail industry and in the general economy;
- 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 report 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

Table of Contents

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.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds we receive from the sale of the 3,000,000 shares of common stock offered by us will be approximately $66.0 million, based upon an assumed public offering price per share of $23.90 (the last reported sale price of our common stock on the New York Stock Exchange on February 5, 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 the outstanding borrowings under the acquisition portion and the working capital portion of our credit agreement. Amounts repaid under the credit agreement may be reborrowed. At February 5, 2002, the effective interest rates on borrowings under our credit agreement were between 3.8% and 4.8%. The revolving loans under the credit agreement mature on August 3, 2005. We incurred the debt under the credit agreement to fund some of our acquisitions and working capital.

Concurrently with the offering of common stock, we plan to offer $200.0 million aggregate principal amount of senior subordinated notes pursuant to Rule 144A and Regulation S under the Securities Act. We estimate that the net proceeds we receive from the sale of the notes will be approximately $190.0 million, after paying the related discounts and estimated offering expenses payable by us and will be used to reduce our outstanding indebtedness. Neither the equity offering nor the debt offering is contingent on the closing of the other.

Table of Contents

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 the sale of 3,000,000 shares of common stock offered by us in this offering at an assumed offering price of $23.90 per share, less estimated underwriting discount and offering expenses payable by us, and 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 $200.0 million of our senior subordinated notes in the concurrent debt offering, less estimated discount and related offering expenses. Neither the equity offering nor the debt offering is contingent on the closing of the other. 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	$ 413.0	$ 223.0
11% senior subordinated notes due 2007	3.7	3.7	3.7
Senior subordinated notes in concurrent offering			200.0
Other	6.6	6.6	6.6
Total long-term debt (excluding current portion)	551.8	423.3	433.3
Stockholders equity:			
Series A Preferred Stock, $0.0001 par value; 10,000 shares authorized, 8,794 shares issued and outstanding, actual; 7,294 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; 31,955,811 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	573.8	573.8
Retained earnings	78.8	78.8	78.8
Accumulated other comprehensive loss	(8.4)	(8.4)	(8.4)
Total stockholders equity	515.7	644.2	644.2

Total capitalization	$1,071.7	$1,071.7	$1,081.7

(footnotes on following page)

21

Table of Contents

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

(2) As of February 5, 2002, $504.0 million was outstanding under our credit agreement.

(3) The number of shares of common stock and non-voting common stock outstanding after this equity offering excludes (a) 2,404,601 shares of common stock issuable upon the exercise of stock options outstanding as of February 5, 2002, at a weighted average exercise price of $11.98 per share (1,421,239 were exercisable as of February 5, 2002, and the balance become exercisable in the future based upon continued employment) and (b) 7,294.17076 shares of Series A convertible preferred stock, which are convertible into 7,294,171 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.

Table of Contents

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 current 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. Also, pursuant to the automobile franchise agreements to which our dealerships are subject, all dealerships are required to maintain a certain amount of working capital. 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 February 5, 2002)	$27.70	$21.03

On February 5, 2002, the last reported sale price of our common stock on the New York Stock Exchange was $23.90 per share. As of February 5, 2002, there were 255 holders of record of our common stock.

Table of Contents

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 have 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 these selected financial data are not necessarily indicative of our future results. You should read these selected consolidated financial data in conjunction with our audited consolidated financial statements and the related footnotes included elsewhere in this prospectus.

	Year Ended December 31,				
	1997(1)	1998(2)	1999	2000	2001
	(dollars 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 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

Table of Contents

	As of December 31,				
	1997	1998	1999	2000	2001
	(dollars 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.

Table of Contents

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 profits and our other products resulting in higher gross profits. Factors such as seasonality, weather, cyclicality and manufacturers advertising and incentives may impact the mix of our revenues, and therefore influence our gross 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 our costs to adapt to trends in the market.

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. 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, 2001.

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: (i) a $45.9 million, or 8.5%, increase in retail gross profit at stores owned pri