

UNITED AUTO GROUP INC

Form 10-K/A

January 23, 2006

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from     to     .**

**Commission file number 1-12297  
United Auto Group, Inc.**

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

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*  
**2555 Telegraph Road  
Bloomfield Hills, Michigan**  
*(Address of principal executive offices)*

**22-3086739**  
*(I.R.S. Employer  
Identification No.)*  
**48302-0954**  
*(Zip Code)*

**Registrant's telephone number, including area code (248) 648-2500  
Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each Exchange on which registered</b>
<b>Voting Common Stock, par value \$0.0001 per share</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None.</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2004 was \$598,414,686.

As of March 1, 2005, there were 46,534,033 shares of voting common stock outstanding.

**Documents Incorporated by Reference**

Certain portions, as expressly described in this report, of the registrant's proxy statement for the 2005 Annual Meeting of the Stockholders to be held April 14, 2005 are incorporated by reference into Part III, Items 10-14.

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**Explanatory Note**

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

The changes in presentation have no effect on net income, earnings per share, stockholder's equity or our conclusion that our disclosure controls and procedures were effective as of December 31, 2004 however, because we are restating the financial statements included in our Form 10-K, we are also restating our financial statements for entities which became discontinued operations during the nine months ended September 30, 2005. Such changes affect Items 1, 7, 9A and 15 in this Form 10-K/A. All other information in this amendment is as of the date of the original filing and does not reflect any subsequent information or events occurring after the date of the original filing.

**PART I**

**Item 1. Business**

We are the second largest automotive retailer in the United States as measured by total revenues and have the highest concentration of revenues from foreign and luxury brands among the publicly-traded automotive retailers. As of March 1, 2005, we owned and operated 152 franchises in the United States and 101 franchises internationally, primarily in the United Kingdom. We offer a full range of vehicle brands, with 86% of our revenues in 2004 generated from the combined sales of foreign and luxury brands such as Toyota, Honda, BMW, Lexus and Mercedes with luxury brands representing 55% of our revenues. In addition to selling new and used vehicles, we offer a full range of maintenance and repair services, and we facilitate the sale of third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products.

We benefit from our diversified revenue stream, which we believe helps to mitigate the historical cyclicity found in some other automotive sectors. Revenues from higher margin service and parts sales are typically less cyclical than retail vehicle sales, and constitute the largest part of our gross profit. The following graphic shows the percentage of our revenues by product area along with their respective contribution to our overall gross profit:

**Revenue Mix**

**Gross Profit Mix**

**Business Strategy**

Our strategy is to sell and service the finest automotive brands in premium facilities. We believe offering our customers superior customer service in a premium location fosters a long-term relationship, which helps generate repeat and referral business, particularly in our higher-margin service and parts business. We believe our focus on developing a loyal customer base has helped to increase our profitability and generate additional service and parts sales. In addition, our national dealership base and international presence allows us to achieve cost savings and implement best practices, while also providing access to a broad base of potential acquisitions.

*Offer Outstanding Brands in World Class Facilities*

We have the highest concentration of revenues from foreign and luxury brands among the publicly-traded automotive retailers. We believe our brand mix will allow us to continue to improve same-store sales and gross profits, as we believe luxury and foreign brands will continue to increase market share.

The following chart demonstrates our total revenue by brand:

We sell and service these brands in our world-class facilities. We believe offering these outstanding brands in world-class facilities drives repeat and referral business, particularly in our higher margin service and parts operations. Where advantageous, we attempt to aggregate our

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dealerships in order to build a destination location for our customers, which we believe helps to drive increased customer traffic to each of our brands at the location. This strategy also offers the potential of reduced personnel expenses, consolidated advertising and administrative expenses and the leveraging of additional operating expenses over a larger base of dealerships.

The following is a list of our larger dealership campuses:

<b>Location</b>	<b>Square Feet</b>	<b>Franchises</b>
North Scottsdale, Arizona	450,000	Acura, Audi, BMW, Jaguar, Land Rover, Lincoln Mercury, MINI, Porsche, Volkswagen, Volvo
Scottsdale, Arizona	132,085	Aston Martin, Audi, Bentley, Ferrari, Jaguar, Land Rover, Lexus, Maserati, Rolls-Royce
San Diego, California	300,000	BMW, Lexus, Maybach, Mercedes-Benz, Scion, Toyota,
Fayetteville, Arkansas	122,000	Acura, Chevrolet, Honda, HUMMER, Scion, Toyota
Tyson s Corner, Virginia	191,000	Audi, Aston Martin, Maybach, Mercedes-Benz, Porsche
Inskip, Rhode Island*	319,000	Acura, Audi, Bentley, BMW, Infiniti, Lexus, Maserati, Mercedes-Benz, Porsche, Volvo
Turnersville, New Jersey*	210,000	Acura, BMW, Chevrolet, Honda, Hyundai, Maserati, Nissan, Scion, Toyota

\* Currently in process of renovation

Our Scottsdale 101 Auto Mall, the nation's largest premium luxury automobile shopping destination, features ten separate showrooms and franchises with over 450,000 square feet of facilities. Typically, customers may choose from an inventory of over 1,500 new and used vehicles, and have access to approximately 250 service bays with service capacity of approximately 1,000 vehicles per day. It also features an on/off road test course where customers may experience the uniqueness of the brands offered. We will continue to evaluate other opportunities to aggregate our facilities to reap the benefits of a destination location.

*Expand Revenues at Existing Locations and Grow Higher Margin Businesses.*

We aim to grow our business through increasing same-store sales at existing dealerships and by acquiring dealerships with high growth automotive brands in highly concentrated or rapidly growing demographic areas. We also focus particularly on developing our higher margin businesses: finance, insurance and other products, service and parts sales and collision repair.

*Same-Store Sales.* We believe our emphasis on improving customer service and upgrading our facilities will result in continued increases in same-store sales. We generally offer premium showrooms and displays and have recently added service bays and modernized many of our facilities. We believe these factors have helped to generate 2004 same-store retail revenue increases of 5.1% for new vehicles, 4.0% for used vehicles, 8.2% for finance and insurance and 12.6% for service and parts.

*Targeted Acquisitions.* As of December 31, 2004, approximately 93% of the U.S. automotive retail market remained unconsolidated. We believe that attractive acquisition opportunities exist both in the U.S. and abroad for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. We seek to acquire dealerships with strategic geographic locations and significant earnings growth potential. We focus both on larger dealership operations that will benefit from our management assistance, manufacturer relations and scale of operations, as well as individual dealerships that can be effectively integrated into our existing operations.

*Finance, Insurance and Other Aftermarket Products.* Each sale of a vehicle provides us the opportunity to assist in financing the sale, sell the customer a third party extended service contract or insurance product and sell other aftermarket products, such as cellular phones, alarms and protective coatings. In order to improve our finance and insurance business, we are focusing on enhancing and standardizing our salesperson training program and increasing

our product offerings.

*Service and Parts and Collision Repair.* In 2004, we added numerous service bays across our dealerships in an effort to expand this higher-margin segment of our business. Unlike independent service shops, our dealerships perform manufacturer warranty work which, because it is paid for by the manufacturer, is a more dependable source of repeat business. To increase this business, our dealerships track maintenance records of customers and contact them regarding dealership promotions and maintenance schedules. Warranty work accounts for approximately 25% of our service and parts revenue, with the balance being customer-pay work. We believe that our brand-mix, superior customer service and world-class facilities each contribute to the high level of customer-pay work.

We also own 40 collision repair centers. As each of these is operated as an integral part of our dealership operations, the repair centers benefit from the dealerships' repeat and referral business.

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### *Offer Outstanding Customer Service.*

Our ability to generate and maintain repeat and referral business depends on our ability to deliver superior customer service. We believe that customer satisfaction contributes directly to significant increases in same-store sales. By offering outstanding brands in world class facilities, and through one-stop shopping convenience, competitive pricing and our knowledgeable sales staff, we aim to establish lasting relationships with our customers, which enhances our reputation in the community and creates the opportunity for significant repeat and referral business.

The quality of customer service provided by our dealerships sales and service departments is measured by customer satisfaction index ( CSI ) scores, which are derived from data accumulated by manufacturers through individual customer surveys. We rely on this data to track the performance of dealership operations and use it as a factor in determining the compensation of general managers and sales and service personnel in our dealerships. The majority of our dealerships exceeded manufacturer CSI metrics in 2004.

### *Maintain Diversified Revenue Stream and Variable Cost Structure.*

We believe that our diversified revenue mix may mitigate the historical cyclicity of new vehicle sales. In addition, our variable cost structure affords us flexibility in responding to economic cycles. We believe that demand for our higher margin service and parts businesses is less affected by economic cycles than demand for new vehicles, as consumers are likely to continue to purchase used vehicles and service their vehicles in spite of difficult economic times. Our dealership operations are also diversified both in terms of the brands of vehicles they offer and geographic location, including internationally, as we operate 101 dealerships abroad, predominately in the United Kingdom.

A significant percentage of our operating expenses are variable, such as sales compensation, floor plan interest expense (inventory-secured financing) and advertising, which we can adjust over time to reflect economic trends. Variable expenses like these can be more easily managed in difficult economic times. Currently, gross profit generated from our service and parts business absorbs a substantial portion of our total operating expenses, excluding salespersons compensation and advertising.

### *Leverage Scale and Implement Best Practices .*

As one of the nation s largest automotive retailers, we aim to eliminate redundant operating costs, such as marketing, supply and administrative costs, and take advantage of our purchasing power. Our scale also assists in managing inventory across dealerships. In addition, through our brand managers, who facilitate our relationship with each manufacturer, we leverage our industry relations to foster communication and cooperation between like brand dealerships throughout our organization.

Our senior management and dealership management meet regularly to review the operating performance of our dealerships, examine industry trends and, where appropriate, agree on specific operating improvements. Key financial information is discussed and compared to other dealerships across all markets. 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 the knowledge and experience of our senior management.

## **Industry Overview**

With revenues of approximately \$1 trillion per year, the automotive retail industry is the largest retail trade sector in the United States. The majority of automotive retailing sales were generated by the approximately 22,000 U.S. new franchised dealerships, producing revenues of approximately \$700 billion. This accounted for over 25% of the total U.S. retail sales. The industry is highly fragmented and largely privately held, with the publicly held automotive retail groups accounting for approximately 7% of the total industry revenue.

Of the close to \$700 billion in U.S. franchised dealer aggregate annual sales, new vehicle sales represent approximately 60% and used vehicle sales represent approximately 28%. In addition to new and used vehicles, dealerships offer a wide range of higher-margin products and services, including service and repair work, replacement parts, third party extended service contracts, financing and credit insurance, which represent approximately 12% of total industry revenues.

According to industry data, the number of U.S. franchised dealerships has declined from approximately 24,000 dealerships in 1990 to approximately 22,000 dealerships today. Although significant consolidation has already taken place, the industry today remains highly fragmented, with approximately 93% of the U.S. industry s market share



remaining in the hands of smaller regional and independent players. We believe that further consolidation in the industry is likely due to increased capital requirements of dealerships, the limited number of viable alternative exit strategies for dealership owners and the desire of certain manufacturers to strengthen their brand identity by consolidating their franchised dealerships.

According to industry data, the United Kingdom represents one of the largest vehicle markets in Europe with approximately \$125 billion in aggregate annual new vehicle, used vehicle and service and parts sales.

There were approximately 30,000 companies selling new vehicles in the U.K in 1999, which has decreased to approximately 25,000 companies in 2003.

New vehicle unit sales are cyclical and, historically, fluctuations are influenced by factors such as interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability and consumer confidence. However, from a profitability

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perspective, automotive retailers have historically been less vulnerable than automobile manufacturers to declines in new vehicle sales. We believe this may be due to the retailers more flexible expense structure (a significant portion of the automotive retail industry's costs are variable, relating to sales personnel, advertising and inventory finance cost) and more diversified revenue stream. In addition, automobile manufacturers may increase dealer incentives when sales are slow in part to meet production quotas which further increases the volatility in profitability for automobile manufacturers and decreases the volatility for automotive retailers.

**Acquisitions**

We have completed a number of dealership acquisitions since January 2002. Our financial statements include the results of operations of the acquired dealerships from the date of acquisition.

In March 2002, we acquired Sytner Group plc, one of the leading retailers of luxury vehicles in the United Kingdom. At that time, Sytner Group operated 62 franchises. Since March 2002, Sytner Group has acquired or been awarded 25 additional franchises and now operates 87 franchises. As of March 1, 2005, Sytner's franchises include: Alpina, Audi, Bentley, BMW, Chrysler, Ferrari, Jaguar, Jeep, Land Rover, Lexus, Maserati, Mercedes-Benz, MINI, Porsche, Rolls Royce, Saab, smart, Toyota, Volkswagen and Volvo. Revenues attributable to Sytner Group for the years ended December 31, 2004 and 2003 were \$2.6 billion and \$1.7 billion, respectively.

The following table sets forth information with respect to our current domestic dealerships acquired or opened since January 2002 and our international dealerships acquired since our purchase of Sytner Group in March 2002:

<b>Dealership</b>	<b>Date Opened or Acquired</b>	<b>Location</b>	<b>Franchises</b>
BMW of Austin	7/02	Austin, TX	BMW
Goodson Dodge North	7/02	Spring, TX	Dodge
Honda Bloomfield	8/02	Bloomfield Hills, MI	Honda
Landers Hummer	9/02	Benton, AR	Hummer
Landers Hummer North	9/02	Fayetteville, AR	Hummer
Cerritos Hummer	9/02	Cerritos, CA	Hummer
MINI North Scottsdale	11/02	Phoenix, AZ	MINI
Audi North Scottsdale	11/02	Phoenix, AZ	Audi
Jaguar North Scottsdale	11/02	Phoenix, AZ	Jaguar
Lincoln-Mercury North Scottsdale	11/02	Phoenix, AZ	Lincoln, Mercury
Volkswagen North Scottsdale	11/02	Phoenix, AZ	Volkswagen
Lincoln-Mercury Volvo of Tulsa	12/02	Tulsa, OK	Lincoln, Mercury, Volvo
Aston Martin Tysons	3/03	Vienna, VA	Aston Martin
Pioneer Ford West	4/03	Goodyear, AZ	Ford
Inskip Auto Center		Warwick, RI	Acura, Audi, Bentley, BMW, Infiniti, Lexus, Mercedes-Benz, Porsche and Volvo
Goodson Chrysler North	4/03		Chrysler
Goodson Jeep North	7/03	Spring, TX	Jeep
Maserati of Warwick	7/03	Spring, TX	Maserati
	12/03	Warwick, RI	
Penske Cadillac South Bay	1/04	Torrance, CA	Cadillac
Maserati of Turnersville	1/04	Turnersville, NJ	Maserati
Maserati of Tulsa	2/04	Tulsa, OK	Maserati
Penske Hummer South Bay	4/04	Torrance, CA	Hummer
Mercedes-Benz of Chandler	7/04	Chandler AZ	Mercedes-Benz

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Ferrari Maserati of Central New Jersey	7/04	Edison, NJ	Ferrari, Maserati
Capitol Honda	8/04	San Jose, CA	Honda
Honda North	8/04	Clovis, CA	Honda
Marin Honda	8/04	Corte Madera, CA	Honda
Los Gatos Acura	8/04	Los Gatos, CA	Acura
Sunnyvale Acura	8/04	Sunnyvale, CA	Acura
Maserati of Cleveland	8/04	Bedford, OH	Maserati
Hyundai of Waterford	11/04	Waterford, MI	Hyundai
Honda Mall of Georgia	1/05	Buford, GA	Honda
<b><i>International</i></b>			
Mercedes-Benz of Cheltenham and Gloucester	7/02	Gloucester, England	
Mercedes-Benz of Swindon	7/02	Wiltshire, England	Mercedes-Benz

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<b>Dealership</b>	<b>Date Opened or Acquired</b>	<b>Location</b>	<b>Franchises</b>
Mercedes-Benz of Bath	7/02	Bath, England	Mercedes-Benz
Tollbar Twickenham	9/02	Middlesex, England	Volvo
smart of Milton Keynes	2/03	Milton Keynes, England	smart
Sytner Rolls Royce Motor Cars	5/03	Cheshire, England	Rolls Royce
Porsche Centre Silverstone	5/03	Northamptonshire, England	Porsche
Lexus Birmingham	6/03	West Midlands, England	Lexus
Toyota World Weston-Super-Mare	7/03	Somerset, England	Toyota
Toyota World Bristol North	7/03	Bristol, England	Toyota
Toyota World Bristol Central	7/03	Bristol, England	Toyota
Lexus Bristol	7/03	Bristol, England	Lexus
Guy Salmon Land Rover Stockport	7/03	Cheshire, England	Land Rover
Sytner Harold Wood	8/03	Essex, England	BMW
Sytner Chigwell	8/03	Essex, England	BMW
Bentley Birmingham	9/03	Birmingham, England	Bentley
Mercedes-Benz of Northampton	10/03	Northampton, England	Mercedes-Benz
Mercedes-Benz of Bedford	10/03	Bedfordshire, England	Mercedes-Benz
Bradford Audi	10/03	Yorkshire, England	Audi
Toyota World Newport	11/03	Newport, Wales	Toyota
Toyota World Cardiff	11/03	Cardiff, Wales	Toyota
Toyota World Bridgend	11/03	Bridgend, Wales	Toyota
Lexus Cardiff	11/03	Cardiff, Wales	Lexus
Kings Cheltenham & Gloucester	5/04	Gloucester,  England	Chrysler Jeep
West London Audi	7/04	Middlesex, England	Audi
Reading Audi	7/04	Berkshire, England	Audi
Porsche Centre Glasgow	7/04	Strathclyde, Scotland	Porsche
Porsche Centre Edinburgh	7/04	Lothian, Scotland	Porsche
Mayfair Audi	7/04	London, England	Audi
Guildford Audi	7/04	Surrey, England	Audi
Graypaul Edinburgh	7/04	Lothian, Scotland	Ferrari, Maserati
Bentley Edinburgh	7/04	Lothian, Scotland	Bentley
Aston Green Audi	7/04	Berkshire, England	Audi
Tamsen GmbH (Bremen)	7/04	Bremen, Germany	Ferrari, Maserati, Aston Martin, Rolls Royce and Bentley
Tamsen GmbH (Hamburg)	7/04	Hamburg, Germany	Ferrari, Maserati, Aston Martin, Rolls Royce and Bentley
Toyota World Tamworth	10/04	Staffordshire, England	Toyota
Harrogate Audi	10/04	Harrogate, England	Audi

In January 2005, we purchased the remaining 50% interest of Tulsa Auto Collection, a group of dealerships in Tulsa, Oklahoma owned indirectly by Ford Motor Company consisting of six franchises representing the Ford, Jaguar, Lincoln and Mercury brands. Since January 2002, we also have divested 38 franchises. We expect to continue to pursue acquisitions and related transactions in the future, although there can be no assurance that we will succeed in this strategy.

### Dealership Operations

*Franchises.* The following charts reflect our franchises by location and our dealership mix by franchise:

Franchise Locations Location	Franchises by Brand				
	Franchises	Franchise	U.S.	Intl.	Total
Arizona	21	Daimler Chrysler	23	17	40
Arkansas	15	Toyota/Lexus	19	15	34
California	16	Ford/PAG	22	18	40
Connecticut	4	BMW/MINI	9	18	27
Florida	7	General Motors	23	1	24
Georgia	5	Honda/Acura	23	1	24
Indiana	2	Nissan/Infiniti	10		10
Michigan	7	Audi	5	10	15
Mississippi	2	Porsche	4	4	8
New Jersey	16	Others	14	17	31
New York	3	Total	152	101	253

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<b>Location</b>	<b>Franchises</b>
North Carolina	3
Ohio	8
Oklahoma	8
Puerto Rico	9
Rhode Island	10
South Carolina	2
Tennessee	3
Texas	6
Virginia	5
Total Domestic	152
United Kingdom	87
Germany	10
Brazil	4
Total Foreign	101
Total Worldwide	253

*Management.* Each dealership or group of dealerships has independent operational and financial management responsible for day-to-day operations. We believe experienced local managers are better qualified to make day-to-day decisions concerning the successful operation of a dealership and can be more responsive to our customers' needs. We seek local dealership management that not only has experience in the automotive industry, but also is familiar with the local dealership's market. Our regional management oversees operations at the individual dealerships and supports the dealerships operationally and administratively.

*New Vehicle Sales.* In 2004, we sold 168,842 new vehicles which generated 59% of our revenue and 34% of our gross profit. As of March 1, 2005, we sold over forty brands of domestic and import family, sports and luxury cars, light trucks and sport utility vehicles through 253 franchises in 20 states, Puerto Rico, the U.K., Germany and Brazil. As of March 1, 2005, we sold the following brands: Acura, Alpina, Aston Martin, Audi, BMW, Buick, Cadillac, Chevrolet, Chrysler, Dodge, Ferrari, Ford, GMC Truck, Honda, Hummer, Hyundai, Infiniti, Jaguar, Jeep, Land Rover, Lexus, Lincoln-Mercury, Lotus, Maybach, Mazda, Maserati, Mercedes Benz, MINI, Nissan, Pontiac, Porsche, Rolls Royce, Bentley, SAAB, Scion, smart, Suzuki, Toyota, Volvo and Volkswagen.

Our customers finance their purchases of new (and used) vehicles through both traditional financing sources as well as through consumer automobile leasing companies. Lease transactions are typically provided to consumers by short term financing sources. Leases also give us the opportunity to obtain repeat business from customers on a more regular basis than traditional purchase transactions.

Our new vehicles are acquired by our dealerships directly from the manufacturer. We strive to maintain exemplary relations with the automotive manufacturers, which is assisted by our long term presence in the automotive retail market, the reputation of our management team, our dedication to building and maintaining positive relationships with our manufacturers, and our consistent high sales volume from our dealerships. Our dealerships finance the purchase of new vehicles from the manufacturers through floor plan financing provided by various manufacturers' captive finance companies.

*Used Vehicle Sales.* In 2004, we sold 82,836 used vehicles which generated 29% of our revenue and 12% of our gross profit. We generally acquire used vehicles from auctions open only to authorized new vehicle dealers, public auctions, trade-ins in connection with new purchases and lease expirations or terminations. Leased vehicles returned to the finance sources at the end of the lease provide us a market of low mileage, late model vehicles for our used vehicle sales operations. We clean, repair and recondition, as necessary, generally at our own service facilities, all used vehicles we acquire for resale. Used vehicles account for a significant portion of the revenues at each of our dealerships.

We believe growth opportunities relating to used vehicle sales exist due to decreased customer concerns regarding used vehicles as more well respected dealerships are engaging in the sale of high-quality, low-mileage, late model used vehicles, coupled with the proliferation of manufacturer certification processes for these vehicles. To improve customer confidence in our used vehicle inventory, each of our dealerships participates in all available manufacturer certification processes for used vehicles. If certification is obtained, the used vehicle owner is typically provided benefits and warranties similar to those offered to new vehicle owners by the applicable manufacturer. Since warranty work can only be performed at franchised dealerships, we believe we may benefit from the opportunity to retain these customers as service and parts customers. In addition, we offer for sale third-party extended service contracts on all of our used vehicles.

Some vehicles acquired through trade-ins or originally intended for sale in our used vehicle operations are instead sold via auction. Through our scale in many markets, we have implemented closed-bid auctions that allow us to bring a large number of vehicles from different franchises to a central market for other dealers or wholesalers to purchase. We believe this strategy has resulted in greater operating efficiency and helped to reduce costs associated with maintaining optimal inventories.

*Vehicle Finance, Extended Service and Insurance Sales.* Finance and insurance sales represented 2% of our revenue and 16% of our gross profit in 2004. At our customers' option, our dealerships arrange third party financing for our customers' vehicle purchases. As compensation we receive a portion of the cost of financing paid by the customer for each financed sale; however, we generally are limited in the amount of revenue per transaction we may receive from certain finance products by these finance companies. While these services are generally non-recourse to us, we are subject to chargebacks in certain circumstances such as default under a financing arrangement or other circumstances.

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We provide training to our finance and insurance personnel to help assure compliance with internal policies and procedures, as well as applicable state regulations. We also offer for sale other aftermarket products, such as Sirius Satellite Radio®, cellular phones, alarms and protective coatings.

We also offer our customers various vehicle warranty and extended protection products, including extended warranties, maintenance programs, guaranteed auto protection (known as GAP, this protection covers the shortfall between a customer's loan balance and insurance payoff in the event of a casualty), lease wear and tear insurance and theft protection products at competitive prices. The vehicle warranty and extended protection products that our stores currently offer to customers are underwritten and administered by independent third parties, including the vehicle manufacturers' captive finance subsidiaries. We may also be subject to chargebacks in connection with sale of certain of these products.

*Service and Parts Sales.* Service and parts sales represented 10% of our revenue and 38% of our gross profit in 2004. We generate service and parts sales at each of our dealerships, primarily relating to the vehicle models sold at that dealership. We perform both warranty and non-warranty work. Our service and parts revenues have increased each year, in large part due to our increased service capacity, coupled with the increasingly complex technology used in vehicles, which makes it difficult for independent repair facilities to maintain and repair today's automobiles. As part of our agreements with our manufacturers, we obtain all equipment required by the manufacturer and needed to service and maintain each make of vehicle sold at any particular dealership.

A goal of each of our dealerships is to make each vehicle purchaser a customer of our service and parts department. Our dealerships keep detailed records of our customers' maintenance and service history and many dealerships send reminders to customers when vehicles are due for periodic maintenance or service. Many of our dealerships also have extended evening and weekend service hours to add convenience for our customers. We also operate 40 collision repair centers, each of which is operated as an integral part of our dealership operations.

*Internet Presence.* In order to attract customers and enhance our customer service, each of our dealerships maintains its own website, and our corporate website, [www.unitedauto.com](http://www.unitedauto.com), provides a link to each of our dealership websites allowing consumers to source information and communicate directly with our dealerships locally. During 2004, we established a relationship with Reynolds Web Services, a division of The Reynolds & Reynolds Company, to provide website design, hosting, and consulting services for the majority of the company's websites. Reynolds Web Services will assist us in the area of on-line automotive merchandising. Each of our U.S. dealership websites are presented in common formats (except where otherwise required by manufacturers) which helps to minimize costs and provide a consistent image across dealerships. In addition, many automotive manufacturers' websites provide links to our dealerships' websites.

According to industry analysts, the majority of car buyers nationwide will consult the Internet for new and pre-owned automotive information. The Internet is generating better-informed consumers and improving the efficiency of the sales process. Using our dealership websites, consumers can electronically search our inventory for vehicles that meet their model and feature requirements and price range. Our websites provide detailed information for the entire purchase process, including detailed information including, photos, prices, promotions, specifications, reviews, tools to schedule service appointments and financial applications. We believe these features make it easier for consumers to meet all of their automotive research needs. Customers can contact dedicated Internet sales consultants on line via [www.unitedauto.com](http://www.unitedauto.com) or the dealership websites.

We have also partnered with CarsDirect.com, a leading online car buying service that provides consumers with a full menu of research features. Consumers can also use CarsDirect.com to either buy a vehicle online or be sent to a network of dealerships in their market, including most of our dealerships. Research features include detailed safety ratings and reviews, financing, extended warranties, insurance quotes, anti-theft products and trade-in appraisals.



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The following is a list of all of our dealerships:

**U.S. DEALERSHIPS**

**ARIZONA**

Acura North Scottsdale  
Jaguar/ Aston Martin North Scottsdale  
Audi North Scottsdale  
BMW North Scottsdale & MINI  
Jaguar Scottsdale  
Land Rover North Scottsdale  
Land Rover Scottsdale  
Lincoln Mercury North Scottsdale  
Mercedes-Benz of Chandler  
Pioneer Ford  
Pioneer Ford West  
Porsche North Scottsdale  
Rolls-Royce Motorcars Scottsdale  
Bentley Scottsdale  
Scottsdale Audi  
Scottsdale Ferrari Maserati  
Scottsdale Lexus  
Tempe Honda  
Volkswagen North Scottsdale  
Volvo North Scottsdale

**ARKANSAS**

Landers Acura North  
Landers Buick Pontiac HUMMER GMC Truck  
Landers Chevrolet  
Landers Chevrolet HUMMER North  
Landers Chrysler Jeep Dodge  
Landers Ford Little Rock  
Landers Ford North  
Landers Honda North  
Landers Toyota-Scion North

**CALIFORNIA**

BMW of San Diego  
Capitol Honda  
Cerritos Buick Pontiac HUMMER GMC  
Honda North  
Kearny Mesa Toyota-Scion  
Lexus Kearny Mesa  
Los Gatos Acura  
Marin Honda  
Mercedes-Benz of San Diego (& Maybach)  
Penske Cadillac HUMMER South Bay  
Sunnyvale Acura

**CONNECTICUT**

Audi of Fairfield  
Fair Honda  
Mercedes-Benz of Fairfield

Porsche of Fairfield

**FLORIDA**

Central Florida Toyota-Scion Citrus Motors (Chrysler, Dodge, Jeep)

Palm Beach Mazda

Palm Beach Toyota-Scion

Palm Nissan

**GEORGIA**

Atlanta Toyota Scion

Honda Mall of Georgia

Peachtree Nissan

United BMW of Gwinnett

United BMW of Roswell

United Nissan

**INDIANA**

Penske Chevrolet

Penske Honda

**MICHIGAN**

Honda Bloomfield

Hyundai of Waterford

Rinke Cadillac

Rinke Pontiac GMC

Rinke Toyota Scion

Toyota-Scion of Bloomfield

**MISSISSIPPI**

Landers Dodge

Landers Nissan

**NEW JERSEY**

Acura of Turnersville

BMW of Turnersville

Chevrolet of Turnersville

DiFeo BMW

DiFeo Lexus

Ferrari Maserati of Central New Jersey

Gateway Toyota-Scion

Honda of Turnersville

Hudson Hyundai

Hudson Nissan

Hudson Toyota-Scion

Hyundai of Turnersville

Maserati of Turnersville

Nissan of Turnersville

Toyota-Scion of Turnersville

**NEW YORK**

Honda of Nanuet

Mercedes-Benz of Nanuet

Westbury Toyota-Scion

**NORTH CAROLINA**

Chevrolet Cadillac of Goldsboro

Reed-Lallier Chevrolet

**OHIO**

Honda of Mentor  
Infiniti of Bedford  
Infiniti of North Olmsted  
Maserati of Cleveland  
Mercedes-Benz of Bedford  
Mercedes-Benz of North Olmsted  
Nissan of North Olmsted  
Toyota-Scion of Bedford

**OKLAHOMA**

United Ford Broken Arrow  
United Ford North  
United Ford South  
Jaguar of Tulsa  
Lincoln Mercury of Tulsa (9111 S Memorial)  
Lincoln Mercury of Tulsa (9607 S Memorial)  
Maserati of Tulsa  
Volvo of Tulsa

**RHODE ISLAND**

Bentley Providence  
Inskip Acura  
Inskip Audi  
Inskip Autocenter (Mercedes-Benz)  
Inskip BMW  
Inskip Infiniti  
Inskip Lexus  
Inskip Porsche  
Inskip Volvo  
Maserati of Warwick

**SOUTH CAROLINA**

Chevrolet of North Charleston  
Michael Chevrolet

**TENNESSEE**

Covington Pike Dodge  
Covington Pike Toyota-Scion  
Landers Ford of Memphis

**TEXAS**

BMW of Austin  
Goodson Chrysler Jeep Dodge North  
Goodson Honda North  
Goodson Honda West

**VIRGINIA**

Aston Mart in of Tysons Corner  
Audi of Tysons Corner  
Mercedes-Benz of Tysons Corner (& Maybach)  
Porsche of Tysons Corner

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**INTERNATIONAL DEALERSHIPS**

**UNITED KINGDOM**

Aston Green Audi (Slough)  
Bentley Birmingham  
Bentley Edinburgh  
Bentley Manchester  
Bradford Audi  
Graypaul Edinburgh (Ferrari/ Maserati)  
Graypaul Nottingham (Ferrari/ Maserati)  
Guildford Audi  
Guy Salmon Jaguar Coventry  
Guy Salmon Jaguar Northampton  
Guy Salmon Jaguar Oxford  
Guy Salmon Jaguar Stratford-Upon- Avon  
Guy Salmon Jaguar Thames Ditton  
Guy Salmon Land Rover Coventry  
Guy Salmon Land Rover Knutsford  
Guy Salmon Land Rover Leeds  
Guy Salmon Land Rover Sheffield  
Guy Salmon Land Rover Stockport  
Guy Salmon Land Rover Stratford- upon-Avon  
Guy Salmon Land Rover Thames Ditton  
Guy Salmon Land Rover Wakefield  
Harrogate Audi  
Kings Cheltenham & Gloucester (Chrysler Jeep)  
Kings Liverpool (Chrysler Jeep)  
Kings Stockport (Chrysler Jeep)  
Leeds Audi  
Lexus Birmingham  
Lexus Bristol  
Lexus Cardiff  
Lexus Leicester  
Lexus Oxford  
Mayfair Audi  
Mercedes-Benz of Bath  
Mercedes-Benz of Bedford  
Mercedes-Benz of Bristol  
Mercedes-Benz/smart of Bristol (Cribbs Causeway)  
Mercedes-Benz of Cheltenham and Gloucester  
Mercedes-Benz of Kettering  
Mercedes-Benz/smart of MiltonKeynes  
Mercedes-Benz of Newbury (& smart)  
Mercedes-Benz of Northampton  
Mercedes-Benz/smart of Swindon  
Mercedes-Benz of Weston-Super-Mare  
Oxford Saab  
Porsche Centre Edinburgh  
Porsche Centre Glasgow  
Porsche Centre Mid-Sussex

Porsche Centre Silverstone  
Reading Audi  
Sytner Chigwell (BMW/MINI)  
Sytner City (BMW/MINI)  
Sytner Gerrards Cross (BMW/MINI)  
Sytner Harold Wood (BMW/MINI)  
Sytner High Wycombe (BMW)  
Sytner Leicester (BMW/MINI)  
Sytner Nottingham (BMW/MINI)  
Sytner Rolls Royce Motor Cars  
Sytner Sheffield (BMW/MINI)  
Sytner Solihull (BMW/MINI)  
Tollbar Coventry (Volvo)  
Tollbar Twickenham (Volvo)  
Tollbar Warwick (Volvo)  
Toyota World (Birmingham)  
Toyota World (Bridgend)  
Toyota World (Bristol Central)  
Toyota World (Bristol North)  
Toyota World (Cardiff)  
Toyota World (Newport)  
Toyota World (Tamworth)  
Toyota World (Weston-Super-Mare)  
Vantage VW (Leeds)  
Varsity (Chrysler Jeep)  
Wakefield Audi  
West London Audi

**BRAZIL**

Andre Ribeiro Chevrolet  
Andre Ribeiro Honda  
Andre Ribeiro Toyota Lexus

**GERMANY**

Tamsen GmbH (Bremen)(Aston Martin, Bentley, Ferrari, Maserati, Rolls-Royce)  
Tamsen GmbH (Hamburg)(Aston Martin, Ferrari, Lamborghini, Maserati, Rolls-Royce)

**PUERTO RICO**

Lexus de San Juan  
Triangle Chrysler-Honda del Oeste  
Triangle Chrysler Mazda de Ponce  
Triangle Honda 65 de Infanteria  
Triangle Honda-Suzuki de Ponce  
Triangle Toyota-Scion San Juan

We also own approximately 50% of the following international dealerships:

**GERMANY**

Autohaus Nix (Wachtersbach) (Toyota, Lexus)  
Autohaus Nix (Offenbach) (Toyota, Lexus)  
Autohaus Nix (Frankfurt)(Toyota, Lexus)  
Autohaus Reisacher (Memminger)(BMW, MINI)

**MEXICO**

Toyota de Aguascalientes  
Toyota de Monterrey

Autohaus Reisacher (Krumbach)(BMW)

Autohaus Reisacher (Vohringer) (BMW)

### **Management Information Systems**

We consolidate financial, accounting and operational data received from our domestic dealers through an exclusive private communications network. The data from these dealers is gathered and processed through individual dealer management systems. All of our domestic dealerships use management system hardware and software from ADP, Inc. or Reynolds and Reynolds however, we are transitioning our dealerships to a sole-source Reynolds and Reynolds platform in an effort to reduce costs. Each dealership is allowed to tailor the operational capabilities of that system locally, but we require that they follow our standardized accounting procedures.

Our private communication network allows us to extract and aggregate information from the two systems in a consistent format to generate consolidating financial and operational data. The system also allows us to access detailed information for each dealership in the U.S. individually, as a group, or on a consolidated basis. Information we can access includes, among other things, inventory, cash, unit sales, the mix of new and used vehicle sales and sales of aftermarket products and services. Our ability to access this data allows us to continually analyze these dealerships operating results and financial position so as to identify areas for improvement. Our technology also enables us to quickly integrate dealerships or dealership groups we acquire in the U.S.

Our foreign dealership financial, accounting and operational data is processed through dealer management systems provided by a number of local software providers. Financial and operational information is aggregated following U.S. policies and accounting requirements and in our U.S. reporting format to ensure consistency of results among our worldwide operations.

### **Marketing**

We believe that our marketing programs have contributed to our sales growth. Our advertising and marketing efforts are focused at the local market level, with the aim of building our retail vehicle business, as well as repeat sales and service business. We utilize many different media for our marketing activities, including newspapers, magazines, television, radio and the Internet. We also assist our local management in running special marketing events to generate sales such as tent sales or local product placement. Automobile manufacturers supplement our local and regional advertising efforts by producing large advertising campaigns to support their brands, promote attractive financing packages and draw traffic to local area dealerships. We believe that our scale has enabled us to obtain favorable terms and other valuable concessions from suppliers and advertising media and should enable us to realize continued cost savings in marketing. In an effort to realize increased efficiencies, we are focusing on common marketing metrics and business practices across our company, as well as negotiating enterprise arrangements for many marketing resources.

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**Agreements with Vehicle Manufacturers**

Each of our dealerships operates under separate franchise agreements with the manufacturers of each brand of vehicle sold at that dealership. These agreements contain provisions and standards governing almost every aspect