UNITED AUTO GROUP INC
Form 8-K
November 25, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 22, 2002

UNITED AUTO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	1-12297
(State or Other Jurisdiction of Incorporation	(Commission File Number)

2555 Telegraph Road
Bloomfield Hills, Michigan 48302-0954

(Address of Principal Executive Offices)

248-648-2500

(Registrant s Telephone Number, Including Area Code)

Item 5. OTHER EVENTS

RISK FACTORS

Automobile manufacturers exercise significant control over our operations and we depend on them in order to operate our business. Significant declines in sales of new vehicles manufactured by BMW, DaimlerChrysler, Ford, General Motors, Honda, Nissan or Toyota, or the loss of deterioration of our relationship with one or more of these manufacturers, could have a material adverse effect on our revenues and profitability.

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 because we would not have the right to sell as many automobiles as we do now.

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

Our franchise agreements worldwide may be terminated or not renewed by the automobile manufacturers for a variety of reasons, including any unapproved change of ownership or management and other material breaches of the franchise agreements. We have from time to time been in non-compliance with various provisions of some of our franchise agreements. If any of our significant existing franchise agreements or a large number of franchise agreements are not renewed or the terms and conditions of any such renewals is materially unfavorable to us, there may be 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. In 2001, Toyota, DaimlerChrysler, General Motors, Honda and Ford accounted for 28%, 18%, 14%, 12% and 11%, respectively, of our total revenues. No other manufacturer accounted for more than 10% of our total 2001 revenues. Events such as labor strikes that may adversely affect a manufacturer may also adversely affect us. In particular, labor strikes at a manufacturer that continue for a substantial period of time could have a material adverse effect on our business. Similarly, the delivery of vehicles from manufacturers at a time later than scheduled, which may occur particularly during periods of new product introductions, could lead to reduced sales during those periods. This has been experienced at some of our dealerships from time to time. In addition, any event that causes adverse publicity involving one or more automobile manufacturers or their vehicles may have an adverse effect on our revenues and profitability regardless of whether that event involves any of our dealerships.

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

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

incurring significantly higher capital expenditures and operating expenses;

failing to integrate the operations and personnel of the acquired dealerships;

entering new markets with which we are not familiar;

incurring undiscovered liabilities at acquired dealerships;

disrupting our ongoing business;

failing to retain key personnel of the acquired dealerships;

impairing relationships with employees, manufacturers and customers; and

incorrectly valuing acquired entities.

In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management resources or other operational or financial problems.

Unforeseen expenses, difficulties, complications and delays frequently encountered in connection with the integration of acquired entities and the rapid expansion of operations could inhibit our growth, result in our failure to achieve acquisition synergies and require us to focus resources on integration rather than more profitable areas.

Acquired entities may subject us to unforeseen liabilities that we are unable to detect prior to completing the acquisition or liabilities that turn out to be greater than those we had expected. These liabilities may include liabilities that arise from non-compliance with environmental laws by prior owners for which we, as a successor owner, will be responsible. Until we assume operating control of acquired entities, we may not be able to ascertain the actual value of the acquired entity.

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

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

We may not be able to satisfy our capital requirements for making acquisitions and financing the purchase of our inventory, which could have a material adverse effect on our operations and hinder our ability to achieve our growth strategy.

We require substantial capital in order to acquire automobile dealerships. This capital might be raised through public or private financing, including through the issuance of our equity securities as full or partial consideration for acquisitions, as well as borrowings and other sources. Other than our credit agreement, we do not have any commitments or immediate plans with respect to acquisition financing. Availability under our credit agreement is limited by a collateral-based borrowing base calculated using our net tangible assets. There can be no assurance that additional or sufficient financing will be available, or, if available, that it will be available on acceptable terms. If we raise additional funds by issuing our equity securities, dilution to then existing stockholders may result. The extent to which we will be able or willing to issue equity securities for acquisitions will depend on the market value of our common stock and the willingness of our potential acquisition candidates to accept equity securities as partial or full consideration for the sale of their businesses. The number of shares of common stock that we issue in connection with acquisitions could be large. In addition, a decline in the market price of our common stock for any reason, including, without limitation, a perception that sales of substantial amounts of common stock which are not then publicly registered could occur, may increase the amount of cash required by us to finance acquisitions. If adequate funds are not available, we may be required to significantly curtail our acquisition program, which would materially and adversely affect our growth strategy.

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

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

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

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

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

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

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.

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, which could have a material adverse effect on our business, revenues and profitability and make it difficult to attain our growth strategy.

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

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

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

Because automotive retailing is a mature industry with limited growth potential in new vehicle sales, our growth and earnings will depend significantly on acquisitions and consolidations and expansion of our higher margin businesses.

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. Our inability to do so could affect our ability to make required payments under the New Notes.

If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected because we rely on the industry knowledge and relationships of our key personnel.

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

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.

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

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

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

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

Our automotive dealerships are subject to substantial regulation which may adversely affect our profitability and significantly increase our costs in the future.

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

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

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

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

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.

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.

Violation of these laws or costs of compliance with these laws or changes in these laws could result in adverse financial consequences to us.

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

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

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

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

However, soil and groundwater contamination is known to exist at some of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and those expenditures could be material. See Business Environmental Matters.

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

As a result of the equity offering on March 18, 2002, Penske Corporation, Penske Capital Partners, L.L.C. and various of their affiliates beneficially owns over 50% 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. 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.

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

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

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

Changes in the European Commission s regulations regarding automobile manufacturers may have an adverse effect on Sytner and result in greater competition and decreased profitability.

European automobile manufacturers and distributors have, for the past sixteen years, benefited from successive European Commission Block Exemptions, which give European vehicle companies and dealers immunity from a number of antitrust restrictions on distribution and servicing agreements and has allowed vehicle manufacturers to sell vehicles only through selected dealers, each with exclusive territories.

The most recent Block Exemption expired on September 30, 2002. A new Regulation, approved by the European Commission on February 5, 2002, has become the replacement regime governing the relationship between European automobile manufacturers and dealers. The new resolution became effective on October 1, 2002 and is expected to remain in place until May 31, 2010.

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

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

- vehicle manufacturers may choose between exclusive distribution, where each dealer approved by the manufacturer is allowed a sales territory, and selective distribution, where dealers are selected according to a set of criteria;

- there are no prescriptions about the type of criteria that might be used or the way distribution networks are organized, other than a defined blacklist of severely anti-competitive restrictions;

- retailers will have a choice about whether they sell more than one brand of car;

- dealers in a selective distribution system may engage in active sales throughout the European Union; and

- dealers may choose whether they wish to carry out repairs themselves, or subcontract them to another authorized member of the manufacturer s network (independent repairers may become authorized repairers without being obliged to sell new vehicles).

The Sytner acquisition exposes us to the risks involved in international operations, including currency fluctuation risks, which could have a material effect on our results of operations or financial position as reported in U.S. dollars.

The acquisition of Sytner has been our largest expansion outside of the United States. We do not have significant experience operating dealerships outside of the United States and strategies that have succeeded in the U.S. may not achieve similar results in the United Kingdom. Moreover, our international expansion has exposed us generally to the risks involved in foreign operations, including:

- changes in international tax laws and treaties, including increases of withholding and other taxes on remittances and other payments by subsidiaries;

- currency and exchange risks;

- tariffs, trade barriers, and restrictions on the transfer of funds between nations;

- changes in U.K. governmental regulations;

- the impact of local economic and political conditions;

- the impact of European Commission regulation and the relationship between the U.K. and continental Europe; and

- increased competition and the impact on vehicle pricing resulting from the expiration of the Block Exemption.

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

Item 7. FINANCIAL STATEMENTS

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.

General

We are the second largest publicly-held automotive retailer in the United States as measured by total revenues. As of September 30, 2002, we owned and operated 126 franchises in the United States and 71 franchises internationally, primarily in the United Kingdom. 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 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 and other dealers. 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 the sale of new vehicles, used vehicles, finance and insurance products, and service and parts services. Our gross profit generally varies across product lines, with new vehicle sales usually resulting in lower gross profit margins and our other products resulting in higher gross profit margins. Factors such as seasonality, weather, cyclicality and manufacturers advertising and incentives may impact the mix of our revenues, and therefore influence our gross profit margin.

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

Floor plan interest expense relates to 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 2002 and 2001. 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.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting standards generally accepted in the United States of America requires the application of accounting policies that often involve a significant amount of judgment. Such judgments influence the reported amounts of the assets, liabilities, revenues and expenses in the Company s consolidated financial statements. Management, on an ongoing basis, reviews estimates and assumptions. If management determines, as a result of its consideration of facts and circumstances, that modifications in assumptions and estimates are appropriate, results of operations and financial position as reported in the consolidated financial statements may change significantly.

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

Finance and Insurance Revenue Recognition

The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. The Company also receives commissions from the sale of various insurance products to customers, including credit, life, and health insurance policies and extended service contracts. The Company receives fee income from the placement of these contracts at the time the customer enters into the contract. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the contract. Customers may also terminate extended warranty contracts with the underlying warranty provider, which are fully paid at purchase, and become eligible for refunds of unused premiums. If the customer terminates a retail finance contract or cancels an extended warranty or other insurance product prior to scheduled maturity, a portion of these fees may be charged back to us based on the relevant terms of the contracts. The revenue we record relating to these fees is net of an estimate of the ultimate amount of chargebacks we will be required to pay. Such estimate of ultimate chargeback exposure is based on our historical chargeback expense arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended warranty contracts and other insurance products.

Results of Operations

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Revenues. Retail revenues, which exclude revenues relating to fleet and wholesale transactions, increased by $517.9 million, or 37.5%, from $1.4 billion to $1.9 billion. The overall increase in retail revenues is due primarily to (1) a $100.2 million, or 7.4%, increase in retail revenues at dealerships owned prior to July 1, 2001, and (2) a $435.0 million increase at dealerships acquired subsequent to July 1, 2001. The overall increase in retail revenues at dealerships owned prior to July 1, 2001 reflects 9.2%, 1.9%, 10.3% and 6.3% increases in new retail vehicle, used retail vehicle, finance and insurance and service and parts revenues, respectively. Revenues of $163.8 million from fleet and wholesale transactions represent a 27.8% increase versus the prior year. The increase in fleet and wholesale revenues is due to $41.7 million from acquisitions subsequent to July 1, 2001, offset by a $4.5 million, or 3.6%, decrease at stores owned prior to July 1, 2001.

Retail sales of new vehicles increased by $312.5 million, or 34.2%, from $914.6 million to $1.2 billion. The increase is due primarily to (1) an $82.4 million, or 9.2%, increase at dealerships owned prior to July 1, 2001 and (2) a $241.5 million increase at dealerships acquired subsequent to July 1, 2001. The increase at dealerships owned prior to July 1, 2001, is due primarily to a 6.2% increase in new retail unit sales, which increased revenue by $57.3 million, and a 2.8% increase in comparative average selling prices per vehicle, which increased revenue by $25.1 million. The Company believes that this increase is due in part to its favorable brand mix, which includes a higher concentration of foreign nameplates which have been steadily increasing market share in the US, coupled with aggressive incentive programs being offered by domestic nameplate manufacturers. Approximately 78% of the increase in new retail unit sales at dealerships owned prior to July 1, 2001 results from sales of these foreign nameplates. Aggregate retail unit sales of new vehicles increased by 25.7%, due principally to: (1) the net increase at dealerships owned prior to July 1, 2001 and (2) a 7,388 increase in new vehicle retail unit sales at dealerships acquired subsequent to July 1, 2001. We retailed 44,432 new vehicles (68.1% of total retail vehicle sales) during the three months ended September 30, 2002, compared with 35,351 new vehicles (67.8% of total retail vehicle sales) during the three months ended September 30, 2001.

Retail sales of used vehicles increased by $138.4 million, or 50.7%, from $272.8 million to $411.2 million. The increase is due primarily to (1) a $5.0 million, or 1.9%, increase at dealerships owned prior to July 1, 2001 and (2) a $138.5 million increase at dealerships acquired subsequent to July 1, 2001. The increase at dealerships owned prior to July 1, 2001 is due primarily to a 0.3% increase in used retail unit sales which increased revenue by $0.8 million, and a 1.6% increase in comparative average selling prices per vehicle which increased revenue by $4.2 million. The Company believes the relative affordability of new vehicles resulting from manufacturer incentive programs has negatively impacted used vehicles sales growth during the three months ended September 30, 2002. Aggregate retail unit sales of used vehicles increased by 23.8%, due principally to: (1) the net increase at dealerships owned prior to July 1, 2001 and (2) a 4,274 increase in used vehicle retail unit sales at dealerships acquired subsequent to July 1, 2001. We retailed 20,792 used vehicles (31.9% of total retail vehicle sales) during the three months ended September 30, 2002, compared with 16,792 used vehicles (32.2% of total retail vehicle sales) during the three months ended September 30, 2001.

Finance and insurance revenues increased by $11.6 million, or 30.3%, from $38.3 million to $49.9 million. The increase is due primarily to: (1) a $3.5 million, or 10.3%, increase at dealerships owned prior to July 1, 2001 and (2) a $7.3 million increase at dealerships acquired subsequent to July 1, 2001. The increase at dealerships owned prior to July 1, 2001 is primarily due to a revenue increase of $38 per retail vehicle sold, which increased revenue by $1.9 million, and a 4.3% increase in retail vehicles sold, which increased revenue by $1.6 million.

Service and parts revenues increased by $55.3 million, or 36.3%, from $152.2 million to $207.6 million. The increase is due primarily to (1) an $9.4 million, or 6.3%, increase at dealerships owned prior to July 1, 2001 and (2) a $47.8 million increase at dealerships acquired subsequent to July 1, 2001. The Company believes that its service and parts business is being positively impacted by the complexity of today s vehicles, manufacturers warranty programs for both new and certified used vehicles, increases in retail unit sales at our dealerships and capacity increases in our service and parts operations resulting from capital construction projects.

Fleet revenues decreased $4.5 million, or 12.1%, versus the comparable prior year period. The decrease in fleet revenues is due primarily to a $6.3 million, or 17.0%, decrease in fleet sales revenues at dealerships owned prior to July 1, 2001, partially offset by a $1.8 million increase at stores acquired subsequent to July 1, 2001. The Company has elected to de-emphasize the low margin fleet business and expects fleet sales volumes to remain lower in the future.

Wholesale revenues increased $40.2 million, or 44.1%, versus the comparable prior year period. The increase in wholesale revenues is due primarily to (1) a $1.8 million, or 2.0%, increase at dealerships owned prior to July 1, 2001 and (2) a $39.9 million increase at dealerships acquired subsequent to July 1, 2001. The Company believes the increase at dealerships owned prior to July 1, 2001 is due in part to the relative strength of the new car market, resulting in an increase in the number of cars taken in on trade, versus the relative weakness of the used car market.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $76.5 million, or 36.0%, from $212.4 million to $288.9 million. The increase in gross profit is due to: (1) a $12.4 million, or 6.1%, increase in retail gross profit at stores owned prior to July 1, 2001 and (2) a $65.4 million increase at dealerships acquired subsequent to July 1, 2001. Retail gross profit as a percentage of revenues from retail transactions decreased from 15.4% to 15.2%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.2%, 9.7%, 100.0%, and 47.3%, respectively, compared with 8.4%, 10.7%, 100.0% and 44.8% in the comparable prior year period. The decrease in retail gross profit as a percentage of revenues from retail transactions is primarily attributable to (1) decreased margins on the sale of used vehicle, which relate primarily to the lower margins realized on used vehicle sales in the UK, (2) decreased margins on the sale of new vehicles, which are due primarily to margin compression in the US, offset in part by higher margins realized on new vehicle sales in the UK, and (3) a decrease in the percentage of higher margin finance and insurance revenues to total retail revenues, offset in part by (1) increased gross profit margins on service and parts revenues, which result from the realization of higher margins in the US and UK, and (2) an increase in the relative proportion of used vehicle retail sales to total vehicle sales. Aggregate gross profit on fleet and wholesale transactions decreased by $0.9 million to a loss of $1.2 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $58.4 million, or 34.1%, from $171.4 million to $229.8 million. Such expenses decreased as a percentage of total revenue from 11.4% to 11.2%, and decreased as a percentage of gross profit from 80.8% to 79.9%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $16.1 million, or 10.3%, increase at dealerships owned prior to July 1, 2001, and (2) a $51.2 million increase at dealerships acquired subsequent to July 1, 2001, partially offset by a $5.0 million decrease in goodwill amortization due to the adoption of SFAS No. 142. The increase in selling, general and administrative expenses at stores owned prior to July 1, 2001 is due in large part to increased selling expenses, including increases in variable compensation as a result of the 6.1% increase in retail gross profit over the prior year, depreciation, healthcare costs, and other insurance costs versus the prior year.

Floor Plan Interest Expense. Floor plan interest expense increased by $0.1 million, or 0.9%, from $9.0 million to $9.1 million. The increase in floor plan interest expense is due to a $1.7 million, or 19.0%, decrease at stores owned prior to July 1, 2001, partially offset by a $1.9 million increase at dealerships acquired subsequent to July 1, 2001. The decrease at stores owned prior to July 1, 2001 is due primarily to a decrease in inventory at those dealerships, coupled with a decrease in our weighted average borrowing rate on floor plan indebtedness during 2002.

Other Interest Expense. Other interest expense increased by $2.0 million, or 25.0%, from $8.0 million to $10.0 million. The increase is due primarily to increased acquisition related indebtedness, including approximately $140.0 million borrowed in connection with the acquisition of the Sytner Group plc in March 2002, offset in part by (1) a decrease in our weighted average borrowing rate during 2002 and (2) the pay-down of indebtedness with proceeds from equity offerings subsequent to December 31, 2001.

Income Taxes. Income taxes increased by $5.4 million from $10.3 million to $15.7 million. The increase is due to an increase in pre-tax income compared with 2001, partially offset by a decrease in our estimated effective annual tax rate.

Discontinued Operations. Income (loss) from discontinued operations, consisting of the results of operations which have been or will be divested or closed, decreased by $0.8 million from $0.2 million to a loss of $0.6 million. The current year results include an after-tax gain on disposal of $0.5 million.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Revenues. Retail revenues, which exclude revenues relating to fleet and wholesale transactions, increased by $1.1 billion, or 28.8%, from $4.0 billion to $5.1 billion. The overall increase in retail revenues is due primarily to: (1) a $200.0 million, or 5.6%, increase in retail revenues at dealerships owned prior to January 1, 2001, and (2) a $1.0 billion increase at dealerships acquired subsequent to January 1, 2001. The overall increase in retail revenues at dealerships owned prior to January 1, 2001 reflects 7.0%, 9.9% and 6.2% increases in new retail vehicle, finance and insurance and service and parts revenues, respectively. Revenues of $448.8 million from fleet and wholesale transactions represent a 17.3% increase versus the prior year. The increase in fleet and wholesale revenues is due to $97.1 million from acquisitions subsequent to January 1, 2001, offset by a $23.2 million, or 6.7%, decrease at stores owned prior to January 1, 2001.

Retail sales of new vehicles increased by $685.6 million, or 26.2%, from $2.6 billion to $3.3 billion. The increase is due primarily to: (1) a $166. million, or 7.0%, increase at dealerships owned prior to January 1, 2001 and (2) a $561.2 million increase at dealerships acquired subsequent to January 1, 2001. The increase at dealerships owned prior to January 1, 2001, is due primarily to a 4.4% increase in new retail unit sales, which increased revenue by $106.9 million, and a 2.5% increase in comparative average selling prices per vehicle, which increased revenue by $59.1 million. The Company believes that this increase is due in part to its favorable brand mix, which includes a higher concentration of foreign nameplates which have been steadily increasing market share in the US, coupled with aggressive incentive programs being offered by domestic nameplate manufacturers. Approximately 89% of the increase in new retail unit sales at dealerships owned prior to January 1, 2001 results from sales of these foreign nameplates. Aggregate retail unit sales of new vehicles increased by 19.9%, due principally to: (1) the net increase at dealerships owned prior to January 1, 2001 and (2) a 17,617 increase in new vehicle retail unit sales at dealerships acquired subsequent to January 1, 2001. We retailed 119,662 new vehicles (67.4% of total retail vehicle sales) during the nine months ended September 30, 2002, compared with 100,016 new vehicles (67.0% of total retail vehicle sales) during the nine months ended September 30, 2001.

Retail sales of used vehicles increased by $299.3 million, or 37.1%, from $807.3 million to $1.1 billion. The increase is due primarily to a $323.9 million increase at dealerships acquired subsequent to January 1, 2001. Retail sales of used vehicles at dealerships owned prior to January 1, 2001 were consistent with the prior year. The Company believes the relative affordability of new vehicles resulting from manufacturer incentive programs has negatively impacted used vehicles sales growth during the nine months ended September 30, 2002. Aggregate retail unit sales of used vehicles increased by 17.9%, due principally to a 10,738 increase in used vehicle retail unit sales at dealerships acquired subsequent to January 1, 2001. We retailed 58,092 used vehicles (32.6% of total retail vehicle sales) during the nine months ended September 30, 2002, compared with 49,278 used vehicles (33.0% of total retail vehicle sales) during the nine months ended September 30, 2001.

Finance and insurance revenues increased by $26.6 million, or 24.9%, from $106.7 million to $133.3 million. The increase is due primarily to: (1) an $8.8 million, or 9.9%, increase at dealerships owned prior to January 1, 2001 and (2) a $16.5 million increase at dealerships acquired subsequent to January 1, 2001. The increase at dealerships owned prior to January 1, 2001 is primarily due to a revenue increase of $46 per retail vehicle sold, which increased revenue by $6.2 million, and a 2.7% increase in retail vehicles sold, which increased revenue by $2.6 million.

Service and parts revenues increased by $129.6 million, or 29.8%, from $435.6 million to $565.2 million. The increase is due primarily to: (1) a $24.8 million, or 6.2%, increase at dealerships owned prior to January 1, 2001 and (2) a $111.5 million increase at dealerships acquired subsequent to January 1, 2001. The Company believes that its service and parts business is being positively impacted by the complexity of today s vehicles, manufacturers warranty programs for both new and certified used vehicles, increases in retail unit sales at our dealerships and capacity increases in our service and parts operations resulting from capital construction projects.

Fleet revenues decreased $25.7 million, or 21.6%, versus the comparable prior year period. The decrease in fleet revenues is due primarily to a $28.8 million, or 26.8%, decrease in fleet sales revenues at dealerships owned prior to January 1, 2001, partially offset by a $4.0 million increase at stores acquired subsequent to January 1, 2001. The Company has elected to de-emphasize the low margin fleet business and expects fleet sales volumes to remain lower in the future.

Wholesale revenues increased $92.0 million, or 34.9%, versus the comparable prior year period. The increase in wholesale revenues is due primarily to: (1) a $5.6 million, or 2.4%, increase at dealerships owned prior to January 1, 2001 and (2) a $93.2 million increase at dealerships acquired subsequent to January 1, 2001. The Company believes the increase at dealerships owned prior to July 1, 2001 is due in part to the relative strength of the new car market, resulting in an increase in the number of cars taken in on trade, versus the relative weakness of the used car market.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $185.9 million, or 30.7%, from $604.7 million to $790.6 million. The increase in gross profit is due to: (1) a $38.4 million, or 7.1%, increase in retail gross profit at stores owned prior to January 1, 2001 and (2) a $154.3 million increase at dealerships acquired subsequent to January 1, 2001. Retail gross profit as a percentage of revenues from retail transactions increased from 15.2% to 15.5%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.5%, 10.2%, 100.0%, and 46.9%, respectively, compared with 8.3%, 10.6%, 100.0% and 44.7% in the comparable prior year period. The increase in retail gross profit as a percentage of revenues from retail transactions is primarily attributable to (1) increased gross profit margins on service and parts revenues, which result from the realization of higher margins in the US and UK, (2) an increase in the relative proportion of service and parts sales to total retail sales, (3) an increase in the relative proportion of used vehicle retail sales to total vehicle sales and (4) an increase in margins on the sale of new vehicles, which is due primarily to higher margins realized on new vehicle sales in the UK, offset in part by decreased margins on the sale of used vehicles, which relate primarily to the lower margins realized on used vehicle sales in the UK, offset in part by higher margins on used vehicle sales in the US. Aggregate gross profit on fleet and wholesale transactions decreased by $1.1 million to a loss of $0.8 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $144.2 million, or 29.6%, from $487.4 million to $631.6 million. Such expenses increased as a percentage of total revenue from 11.2% to 11.4%, and decreased as a percentage of gross profit from 80.6% to 80.0%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $43.5 million, or 10.5%, increase at dealerships owned prior to January 1, 2001 and (2) a $122.4 million increase at dealerships acquired subsequent to January 1, 2001, partially offset by a $14.6 million decrease in goodwill amortization due to the adoption of SFAS No. 142. The increase in selling, general and administrative expenses at stores owned prior to January 1, 2001 is due in large part to increased selling expenses, including increases in variable compensation as a result of the 7.1% increase in retail gross profit over the prior year, depreciation, healthcare costs, and other insurance costs versus the prior year.

Floor Plan Interest Expense. Floor plan interest expense decreased by $5.6 million, or 17.6%, from $31.6 million to $26.0 million. The decrease in floor plan interest expense is due to an $8.2 million, or 28.1%, decrease at stores owned prior to January 1, 2001, partially offset by a $3.5 million increase at dealerships acquired subsequent to January 1, 2001. The decrease at stores owned prior to January 1, 2001 is due primarily to a decrease in inventory at those dealerships, coupled with a decrease in our weighted average borrowing rate on floor plan indebtedness during 2002.

Other Interest Expense. Other interest expense increased by $0.6 million, or 2.3%, from $27.2 million to $27.8 million. The increase is due primarily to increased acquisition related indebtedness, including approximately $140.0 million borrowed in connection with the acquisition of the Sytner Group plc in March 2002, offset in part by (1) a decrease in our weighted average borrowing rate during 2002 and (2) the pay-down of indebtedness with proceeds from equity offerings subsequent to December 31, 2001.

Discontinued Operations. Income (loss) from discontinued operations, consisting of the results of operations which have been or will be divested or closed, increased by $0.1 million from $0.6 million to $0.7 million. The current year results include an after-tax gain on disposal of $1.7 million.

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 $1.2 billion, or 29.8%, from $4.2 billion to $5.4 billion. The overall increase in retail revenues is due primarily to: (1) a $321.5 million, or 9.5%, increase in retail revenues at dealerships owned prior to January 1, 2000, and (2) a $1.1 billion increase at dealerships acquired 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 10.9%, 6.6%, 20.0% and 4.2% increases in new retail vehicle, used retail vehicle, finance and insurance and service and parts revenues, respectively. Revenues of $488.1 million from fleet and wholesale transactions represent an 18.8% increase versus the prior year. The increase in fleet and wholesale revenues is due to acquisitions subsequent to January 1, 2000.

Retail sales of new vehicles, which exclude fleet transactions, increased by $872.0 million, or 32.2%, from $2.7 billion to $3.6 billion. The increase is due primarily to: (1) a $241.3 million, or 10.9%, increase at dealerships owned prior to January 1, 2000 and (2) a $777.0 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $146.4 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 2000, is due primarily to an 8.4% increase in new retail unit sales which increased revenue by $188.9 million and a 2.4% increase in comparative average selling prices per vehicle which increased revenue by $52.4 million. The Company believes that the increase is due in part to its favorable brand mix, which includes a higher concentration of foreign nameplates, which have been steadily increasing market share in the United States. Approximately 114% of the increase in new retail vehicle sales at dealerships owned prior to January 1, 2000 results from sales of these foreign nameplates. Aggregate retail unit sales of new vehicles increased by 27.0%, due principally to: (1) the net increase at dealerships owned prior to January 1, 2000 and (2) a 27,280 increase in new vehicle retail unit sales at dealerships acquired subsequent to January 1, 2000, partially offset by a 5,893 decrease in new vehicle retail unit sales resulting from the divestiture of certain dealerships. We retailed

135,402 new vehicles (67.4% of total retail vehicle sales) during the year ended December 31, 2001, compared with 106,621 new vehicles (66.1% of total retail vehicle sales) during the year ended December 31, 2000. Fleet revenues increased $32.4 million, or 30.2%, versus the comparable prior year period. The increase in fleet revenues is due primarily to: (1) a $13.4 million, or 13.0%, increase in fleet sales revenues at dealerships owned prior to January 1, 2000 and (2) a $21.0 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $2.1 million decrease resulting from the divestiture of certain dealerships. The Company has elected to de-emphasize the low margin fleet business and expects fleet sales volumes to be lower in the future.

Retail sales of used vehicles, which exclude wholesale transactions, increased by $212.7 million, or 24.6%, from $863.6 million to $1.1 billion. The increase is due primarily to: (1) a $48.3 million, or 6.6%, increase at dealerships owned prior to January 1, 2000 and (2) a $210.9 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $46.5 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 2000, is due primarily to a 5.7% increase in used retail unit sales which increased revenue by $41.9 million and a 0.8% increase in comparative average selling prices per vehicle which increased revenue by $6.4 million. Aggregate retail unit sales of used vehicles increased by 19.9%, due principally to: (1) the net increase at dealerships owned prior to January 1, 2000, and (2) an 11,328 increase in used vehicle retail unit sales at dealerships acquired subsequent to January 1, 2000, partially offset by a 3,083 decrease in used vehicle retail unit sales resulting from the divestiture of certain dealerships. We retailed 65,597 used vehicles (32.6% of total retail vehicle sales) during the year ended December 31, 2001, compared with 54,701 used vehicles (33.9% of total retail vehicle sales) during the year ended December 31, 2000. Wholesale revenues increased $44.8 million, or 14.7%, versus the comparable prior year period. The increase in wholesale revenues is due primarily to: a $76.9 increase at dealerships acquired subsequent to January 1, 2000; partially offset by (1) a $12.4 million, or 5.0%, decrease at dealerships owned prior to January 1, 2000 and (2) a $19.7 million decrease resulting from the divestiture of certain dealerships.

Finance and insurance revenues increased by $35.2 million, or 32.7%, from $107.5 million to $142.7 million. The increase is due primarily to: (1) a $16.2 million, or 20.0%, increase at dealerships owned prior to January 1, 2000 and (2) a $20.7 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $4.1 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 2000 is primarily due to a revenue increase of $70 per retail vehicle sold, which increased revenue by $9.5 million, and a 7.4% increase in retail vehicles sold which increased revenue by $6.7 million.

Service and parts revenues increased by $117.4 million, or 25.1%, from $467.7 million to $585.1 million. The increase is due primarily to: (1) a $15.7 million, or 4.2%, increase at dealerships owned prior to January 1, 2000 and (2) a $127.1 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $25.5 million decrease resulting from the divestiture of certain dealerships. The Company believes that its service and parts business is being positively impacted by the complexity of today s vehicles, manufacturer warranty programs for both new and certified used vehicles and increases in retail vehicle sales at our dealerships.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $175.1 million, or 27.3%, from $641.9 million to $817.0 million. The increase in gross profit is due to: (1) a $46.6 million, or 9.1%, increase in retail gross profit at stores owned prior to January 1, 2000, and (2) a $157.4 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $32.4 million decrease resulting from the divestiture of certain dealerships. Gross profit as a percentage of revenues on retail transactions decreased from 15.5% to 15.2%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.3%, 10.6%, 100.0%, and 44.8%, respectively, compared with 8.7%, 10.8%, 100.0% and 43.7% in the comparable prior year period. The decrease in gross profit as a percentage of revenues on retail transactions is primarily attributable to: (1) an increase in the relative proportion of lower margin new vehicle sales revenues to total retail vehicle revenues, (2) a decrease in the percentage of higher margin finance and insurance and service and parts revenues to total retail revenues, (3) decreased gross profit margins on new retail vehicle revenues, and (4) decreased gross profit margins on used retail vehicle revenues, partially offset by increased gross profit margins on service and parts revenues. Aggregate gross profit on fleet and wholesale transactions decreased by $2.5 million to a loss of $1.6 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $152.5 million, or 30.0%, from $508.6 million to $661.1 million. Such expenses increased as a percentage of total revenue from 11.2% to 11.3%, and increased as a percentage of gross profit from 79.1% to 81.1%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $46.1 million, or 11.8%, increase at dealerships owned prior to January 1, 2000, and (2) a $122.5 million increase at dealerships acquired subsequent to January 1, 2000, partially offset by a $26.4 million decrease resulting from the divestiture of certain dealerships. The increase in selling, general and administrative expenses at stores owned prior to January 1, 2000 is due in large part to increased selling expenses, including increased variable compensation, as a result of the 9.1% increase in retail gross profit over the prior year.

Floor Plan Interest Expense. Floor plan interest expense decreased by $0.3 million, or 0.7%, from $40.6 million to $40.3 million. The decrease in floor plan interest expense is due to (1) a $9.0 million, or 28.6%, decrease at stores owned prior to January 1, 2000 and (2) a $3.0 million decrease relating to the divestiture of certain dealerships, partially offset by a $5.9 million increase at dealerships acquired subsequent to January 1, 2000. The decrease at stores owned prior to January 1, 2000 is due primarily to a decrease in inventory at dealerships owned prior to January 1, 2000, coupled with a decrease in our weighted average borrowing rate on floor plan indebtedness during 2001.

Other Interest Expense. Other interest expense increased by $2.0 million, or 6.2%, from $32.7 million to $34.8 million. The increase is due primarily to increased acquisition related indebtedness, offset in part by (1) a decrease in our weighted average borrowing rate during 2001, (2) the effect of refinancing our 11.0% senior subordinated notes due 2007 and certain other indebtedness with lower interest borrowings under our amended and restated credit agreement, dated as of December 22, 2000 and (3) the paydown of indebtedness with proceeds from equity offerings subsequent to December 31, 2000.

Income Taxes. Income taxes increased by $8.1 million from $26.5 million to $34.6 million. The increase is due to an increase in pre-tax income compared with 2000.

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

Discontinued Operations. Income from discontinued operations, consisting of the results of operations which have been or will be divested or closed, increased by $0.8 million from $0.1 million to $0.9 million.

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

Revenues. Retail revenues, which exclude revenues relating to fleet and wholesale transactions, increased by $795.4 million, or 23.7%, from $3.3 billion to $4.1 billion. The overall increase in retail revenues is due primarily to: (1) a $210.5 million, or 7.1%, increase in retail revenues at dealerships owned prior to January 1, 1999 and (2) an $781.4 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $196.8 million decrease in revenues resulting from the divestiture of certain dealerships. The overall increase in retail revenues at dealerships owned prior to January 1, 1999, reflects 7.1%, 6.2%, 6.8% and 8.9% increases in new retail vehicle, used retail vehicle, finance and insurance and service and parts revenues, respectively. Revenues of $410.9 million from fleet and wholesale transactions were consistent with the prior year.

Retail sales of new vehicles, which exclude fleet sale transactions, increased by $559.3 million, or 26.1%, from $2.1 billion to $2.7 billion. The increase is due primarily to: (1) a $135.8 million, or 7.1%, increase at dealerships owned prior to January 1, 1999, and (2) a $546.9 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $123.3 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 1999, is due primarily to a 5.4% increase in new retail unit sales which increased revenue by $104.3 million and a 1.6% increase in comparative average selling prices per vehicle which increased revenue by $31.5 million. The Company believes that the increase is due in part to its favorable brand mix, which includes a higher concentration of foreign nameplates, which have been steadily increasing market share in the United States. Approximately 196% of the increase in new retail vehicle sales at dealerships owned prior to January 1, 1999 results from the sales of foreign nameplates. Aggregate retail unit sales of new vehicles increased by 21.0%, due principally to: (1) the net increase at dealerships owned prior to January 1, 1999, and (2) a 19,680 increase in new vehicle retail unit sales at dealerships acquired subsequent to January 1, 1999, partially offset by a 5,342 decrease in new vehicle retail unit sales resulting from the divestiture of certain dealerships. We retailed 106,621 new vehicles (66.1% of total retail vehicle sales) during the year ended December 31, 2000, compared with 88,091 new vehicles (64.2% of total retail vehicle sales) during the year ended December 31, 1999. Fleet sales decreased $47.6 million, or 30.7%, versus the comparable prior year period due primarily to a 40.2% decrease in fleet unit sales. The Company has elected to de-emphasize the low margin fleet business and expects fleet sales volumes to remain lower in the future.

Retail sales of used vehicles, which exclude wholesale transactions, increased by $132.4 million, or 18.1%, from $731.2 million to $863.6 million. The increase is due primarily to: (1) a $40.8 million, or 6.2%, increase at dealerships owned prior to January 1, 1999, and (2) a $131.9 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $40.3 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 1999, is due primarily to a 2.6% increase in used retail unit sales which increased revenue by $17.9 million and a 3.5% increase in comparative average selling prices per vehicle which increased revenue by $22.9 million. Aggregate retail unit sales of used vehicles increased by 11.6%, due principally to: (1) the net increase at dealerships owned prior to January 1, 1999, and (2) an 7,498 increase in used vehicle retail unit sales at dealerships acquired subsequent to January 1, 1999, partially offset by a 2,970 decrease in used vehicle retail unit sales resulting from the divestiture of certain dealerships. We retailed 54,701 used vehicles (33.9% of total retail vehicle sales) during the year ended December 31, 2000, compared with 49,024 used vehicles (35.8% of total retail vehicle sales) during the year ended December 31, 1999. Wholesale revenues increased $42.5 million, or 16.3%, versus the comparable prior year period. The increase in wholesale revenues is due primarily to: a $68.1 million increase at dealerships acquired subsequent to January 1, 1999, offset in part by (1) a $7.5 million, or 3.3%, decrease at dealerships owned prior to January 1, 1999, and (2) an $18.1 million decrease resulting from the divestiture of certain dealerships.

Finance and insurance revenues increased by $15.4 million, or 16.7%, from $92.1 million to $107.5 million. The increase is due primarily to: (1) a $4.9 million, or 6.8%, increase at dealerships owned prior to January 1, 1999, and (2) a $14.3 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $4.1 million decrease resulting from the divestiture of certain dealerships. The increase at dealerships owned prior to January 1, 1999 is primarily due to a revenue increase of $14 per retail vehicle sold, which increased revenue by $1.7 million, and a 4.4% increase in retail vehicles sold which increased revenue by $3.2 million.

Service and parts revenues increased by $88.3 million, or 23.3%, from $379.4 million to $467.7 million. The increase is due primarily to: (1) a $29.0 million, or 8.9%, increase at dealerships owned prior to January 1, 1999, and (2) an $88.3 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $29.0 million decrease resulting from the divestiture of certain dealerships. The Company believes that its service and parts business is being positively impacted by the complexity of today s vehicles, manufacturer warranty programs for both new and used vehicles and increases in vehicle sales at our dealerships.

Gross Profit. Retail gross profit, which excludes gross profit on fleet and wholesale transactions, increased $120.3 million, or 23.1%, from $521.5 million to $641.9 million. The increase in gross profit is due to: (1) a $34.7 million, or 7.7%, increase in retail gross profit at stores owned prior to January 1, 1999, and (2) a 114.6 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $29.1 million decrease resulting from the divestiture of certain dealerships. Gross profit as a percentage of revenues on retail transactions decreased from 15.6% to 15.5%. Gross profit as a percentage of revenues for new vehicle retail, used vehicle retail, finance and insurance and service and parts revenues was 8.7%, 10.8%, 100.0%, and 43.7%, respectively, compared with 8.5%, 11.2%, 100.0% and 43.3% in the comparable prior year period. The decrease in gross profit as a percentage of revenues on retail transactions is primarily attributable to: (1) an increase in the relative proportion of lower margin new vehicle sales revenues to total retail revenues during 2000 and (2) decreases in gross profit margins on used retail vehicle revenues; partially offset by increases in gross profit margins on new retail vehicle and service and parts revenues and an increase in service and parts revenues as a percentage of total revenues. Aggregate gross profit on fleet and wholesale transactions increased $1.9 million to $0.9 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $87.6 million, or 20.8%, from $421.0 million to $508.6 million. These expenses as a percentage of total revenues were 11.2%, which is consistent with the prior year, and decreased as a percentage of gross profit from 80.9% to 79.1%. The aggregate increase in selling, general and administrative expenses is due principally to: (1) a $28.5 million, or 8.3%, increase at stores owned prior to January 1, 1999 and (2) an $86.0 million increase at dealerships acquired subsequent to January 1, 1999, partially offset by a $26.5 million decrease resulting from the divestiture of certain dealerships. The increase in selling, general and administrative expense at stores owned prior to January 1, 1999 is due in large part to increased selling expenses, including increased variable compensation, as a result of the 7.7% increase in retail gross profit over the prior year.

Floor Plan Interest Expense. Floor plan interest expense increased by $13.8 million, or 51.6%, from $26.8 million to $40.6 million. The increase in floor plan interest expense is due to: (1) a $5.6 million, or 24.1%, increase at stores owned prior to January 1, 1999 and (2) an $8.5 million increase at dealerships acquired subsequent to January 1, 1999, offset in part by decreases of (1) $1.4 million relating to interest rate swaps hedging floor plan interest rates and (2) $1.6 million resulting from the divestiture of certain dealerships. The increase at stores owned prior to January 1, 1999 is due to an increase in inventory levels compared to 1999 and an increase in our weighted average borrowing rate during 2000.

Other Interest Expense. Other interest expense increased by $3.5 million, or 11.9%, from $29.3 million to $32.7 million. The increase is due primarily to increased acquisition related indebtedness, offset in part by (1) the effect of refinancing the subordinated notes and certain other indebtedness with lower interest borrowings under our credit agreement and (2) the paydown of indebtedness with proceeds from equity offerings during 1999.

Income Taxes. Income taxes increased by $6.1 million from $20.4 million to $26.5 million. The increase is due to an increase in pre-tax income compared with 1999, offset in part by a decrease in our estimated annual effective income tax rate. The decrease in the comparative effective rate is due primarily to a decrease in our estimated effective state tax rate resulting from certain tax planning initiatives and a change in the geographic mix of our earnings.

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

Discontinued Operations. Income from discontinued operations, consisting of the results of operations which have been or will be divested or closed, decreased by $1.7 million from $1.8 million to $0.1 million.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, the acquisition of new dealerships, the improvement and expansion of existing facilities and the construction of new facilities. Historically, these cash requirements have been met through borrowings under our credit agreement, the issuance of debt securities, including floor plan notes payable, sale-leaseback transactions, the issuance of equity securities and cash flow from operations. As of September 30, 2002, we had working capital of $125.3 million.

We finance the majority of our new and a portion of our used vehicle inventory under revolving floor plan financing arrangements into which our subsidiaries have entered with various lenders. We make monthly interest payments on the amount financed, but are generally not required to make loan principal repayments prior to the sale of the new and used vehicles we have financed. The floor plan agreements grant a security interest in substantially all of the assets of our automotive dealership subsidiaries. Interest rates on the floor plan arrangements are variable and increase or decrease based on movements in the prime rate or LIBOR. As of September 30, 2002, our outstanding borrowings under floor plan arrangements amounted to $790.9 million.

Our credit agreement with DaimlerChrysler Services North America LLC and Toyota Motor Credit Corporation provides for revolving loans to be used for acquisitions, working capital, the repurchase of common stock and general corporate purposes. Our borrowing capacity under the revolving portion of the credit agreement is $700.0 million and, in addition, we have use of a standby letter of credit facility in the amount of $50.0 million. Our credit agreement also provided for a term loan of $161.0 million, all of which was used during 1999 and 2000 to repurchase our 11.0% senior subordinated notes. Loans under the credit agreement bear interest between LIBOR plus 2.00% and LIBOR plus 3.00%. The credit agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic automotive dealership subsidiaries (and will be guaranteed by domestic automotive dealership subsidiaries acquired or established by us in the future) and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. Under the terms of our credit agreement, we are required to comply with minimum manufacturer working capital standards at each of our dealerships. We are also required to maintain a total debt (including floor plan borrowings) to stockholders equity ratio of less than 2.75:1, a non floor plan debt to stockholders equity ratio of less than 1.30:1, a senior debt (non floor plan debt less subordinated debt) to EBITDA ratio of less than 3.75:1. EBITDA is based upon the preceding twelve months and, as defined, is pro forma to include twelve months EBITDA for acquired entities. Our credit agreement also contains typical events of default including change of control and non-payment of obligations. Substantially all of our assets are subject to security interests granted to lenders under the credit agreement. The availability under the revolving portion of the credit agreement is subject to a collateral-based borrowing limitation, which is determined based on certain of our allowable tangible assets (which does not include foreign assets). Revolving loans mature on August 3, 2005. As of September 30, 2002, our outstanding borrowings under the credit agreement amounted to $327.8 million. As of November 12, 2002, our outstanding borrowings under the credit agreement amounted to $336.8 million.

During 2000, we entered into a swap agreement of five years duration pursuant to which a notional $200.0 million of our floating rate debt was exchanged for fixed rate debt for five years. The fixed rate interest paid by us is based on LIBOR and amounted to approximately 7.1%. In October 2002, we extended the term of this swap to January 2008. In connection with the extension of the term of the swap, the fixed rate interest rate to be paid by us was reduced to 5.86%.

In March 2002, we issued $300.0 million of 9.625% senior subordinated notes due 2012 pursuant to Rule 144A and Regulation S under the Securities Act, as amended. Proceeds from the offering of $292.2 million were used to repay borrowings under the Company s credit agreement. The notes are unsecured senior subordinated notes and rank behind all of our existing and future senior debt, including debt under our credit agreement. The notes are guaranteed by substantially all of our domestic subsidiaries on a senior subordinated basis. We can redeem all or some of the notes at our option beginning in 2007 at specified redemption prices. In addition, until 2005 we are allowed to redeem up to 35% of the notes with the net cash proceeds from specified public equity offerings. Upon a change of control each holder of notes will be able to require us to repurchase all or some of the notes at a redemption price of 101% of the principal amount of the notes. The notes also contain customary negative covenants and events of default. We are obligated to use our best efforts to complete a registered exchange offer for the notes or to register resales of the notes under the Securities Act, but we cannot assure that such a registration will be completed or that any trading market will develop after completion of such a registration.

In March 2002, we completed an offering of 6,000,000 shares of our common stock for $22.00 per share pursuant to an underwritten registered offering, of which 3,000,000 shares were sold by the Company and 3,000,000 were sold by selling stockholders. Proceeds to the Company from the offering of $61.5 million were used to repay borrowings under the Company s credit agreement.

On April 12, 1999, we entered into a securities purchase agreement with International Motor Cars Group I, L.L.C. and International Motor Cars Group II, L.L.C., Delaware limited liability companies controlled by Penske Capital Partners, L.L.C. (together, the PCP Entities), pursuant to which the PCP Entities agreed to purchase (1) an aggregate of 7,903.124 shares of our Series A convertible preferred stock, par value $0.0001 per share, (2) an aggregate of 396.876 shares of our Series B convertible preferred stock, par value $0.0001 per share, and (3) warrants to purchase (a) 3,898,665 shares of common stock and (b) 1,101,335 shares of our non-voting common stock, par value $0.0001 per share, for $83.0 million. The shares of Series A preferred stock and Series B preferred stock entitled the PCP Entities to dividends at a rate of 6.5% per year. The dividends were payable in kind for the first two years after issuance, after which they were payable in cash. The Series A preferred stock was converted into 7,033,031 shares of our voting common stock in May 2002. The Series B preferred stock was converted into 652,452 shares of our non-voting common stock in August 2002.

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

In September 2001, we announced that our board of directors authorized the repurchase of up to three million shares of our outstanding common stock. Pursuant to that authorization, we repurchased 1,009,463 shares in a negotiated transaction at an aggregate cost of $16.0 million during 2002. As of November 12, 2002, we have repurchased 1,396,555 shares under the program announced in September 2001. The share repurchase program remains open and the Company continually evaluates market conditions and internal financing considerations when contemplating purchasing shares.

In March 2002, we acquired Sytner Group plc, a publicly traded automotive retailer operating in excess of 60 franchises in the United Kingdom, pursuant to an all cash tender offer for approximately £95.3 million in cash. In addition, we assumed approximately £15.8 million of Sytner s debt. As an alternative to receiving all or any part of the £95.3 million of the cash consideration receivable under the offer, Sytner shareholders could elect to receive £1 of loan notes in lieu of every £1 of consideration otherwise receivable under the offer. A total of £26.4 million of such loan notes were issued pursuant to this election. The loan notes bear interest at approximately 3.9% and mature in July 2003. The funds to be used to repay these notes are being held in escrow by the Royal Bank of Scotland for the benefit of the noteholders.

During 2002, net cash provided by operations amounted to $44.3 million. Net cash used in investing activities during 2002 totaled $251.7 million, including $140.0 million related to capital expenditures and $191.6 million for acquisitions (which includes approximately $140.0 million relating to the acquisition of Sytner), offset by $80.0 million in proceeds from sale-leaseback transactions. Net cash provided by financing activities during 2002 totaled $190.9 million, relating to: (1) borrowings of $332.8 million for capital expenditures and acquisitions, (2) borrowings of $300.0 million in connection with the issuance of the senior subordinated notes due 2012 and (3) $135.3 million relating to the issuance of voting common stock, offset by (1) $561.2 million used to repay borrowings under the Company s credit agreement and (2) $16.0 million to repurchase common stock.

We have a number of capital projects planned or underway relating to the expansion and renovation of our retail automotive operations. Gross cash expenditures during 2002 relating to such projects are estimated to aggregate to $150.0 million, a substantial portion of which has already been spent. Historically, we have financed such capital expenditures with borrowings under our credit agreement and cash flow from operations. In the past, we have also entered into sale-leaseback transactions with Automotive Group Realty, LLC (AGR), a wholly owned subsidiary of Penske Corporation. We sold certain properties to AGR in 2002 for consideration of $80.0 million and made lease payments to AGR totaling $8.9 million during the nine months ended September 30, 2002, which payments relate to the properties we lease from AGR. We believe we will continue to finance certain capital expenditures in this fashion during 2002. As a result, we anticipate that the net cash we will fund for capital expenditures will amount to approximately $70.0 million. Funding for such capital expenditures is expected to come from cash flow from operations, supplemented by borrowings under our credit agreement.

The Company agreed to make a contingent payment in cash to the extent the 841,476 shares of common stock issued in connection with an acquisition completed in October 2000 are sold subsequent to the fifth anniversary of the transaction and have a market value at the time of sale of less than $12.00 per share. The Company will be forever released from this guarantee in the event the average daily closing price of the Company s common stock for any 90 day period subsequent to the fifth anniversary of the transaction exceeds $12.00 per share. The Company has further granted the seller a put option pursuant to which the Company may be required to repurchase no more than 108,333 shares for $12.00 per share in cash on each of the first five anniversary dates of the transaction. As of September 30, 2002, the maximum of future cumulative cash payments the Company may be required to make in connection with the put option amounted to $5.2 million. As of November 12, 2002, such maximum cash payments amounted to $3.9 million. To date, no payments have been made by the Company relating to the put option.

In connection with an acquisition of dealerships in October 1997, we agreed that if the acquired companies achieved aggregate specified base earnings levels in any of the five years beginning with the year ending December 31, 1999, we would pay to the sellers for each year in which the acquired companies exceeded base earnings an amount equal to $0.7 million plus defined percentages of the amounts earned in excess of such base earnings for any such year. The total amount of payments to be made pursuant to this agreement is limited to $7.0 million. To date we have paid $2.0 million relating to this agreement. The amount of additional payments, if any, will be determined based upon the financial performance of the acquired business in 2002 and 2003. We also have obligations with respect to past transactions totaling $32.7 million over the next four years.

As of September 30, 2002, we had approximately $0.7 million of cash available to fund operations and future acquisitions. In addition, $355.7 million was available for borrowing under our credit agreement as of November 12, 2002, which availability is subject to a maximum actual borrowing limit of $329.6 million due to the credit agreement s borrowing base collateral limitation (in general, the borrowing base equals certain of our allowable tangible assets plus $300.0 million). Borrowings used to finance the cost of acquisitions and capital construction projects will typically increase tangible assets, allowing the Company to access borrowing capacity which is currently not available due to the base collateral limitation.

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

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

Joint Ventures

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

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

In November 1999 we formed a joint venture to own and operate certain dealerships in Brazil. Our joint venture partners in Brazil are Roger S. Penske, Jr. and Andre Ribeiro Holdings, Ltda. We contributed approximately $3.6 million for a 90.6% interest in United Auto do Brasil, Ltda. and Mr. Penske, Jr. and Mr. Ribeiro each contributed approximately $0.2 million for a 4.7% interest.

In October 2000, we purchased the operating assets of certain dealerships in Fairfield, Connecticut for approximately $26.8 million. We are contractually committed to sell 20% of this venture to Lucio A. Noto and other investors upon receipt of approval for the transfer of ownership by the manufacturers represented at the Fairfield location and the completion of other conditions. Upon completion of these conditions, the closing will occur as of March 1, 2001. The selling price is approximately $5.4 million, representing 20% of the consideration we paid inclusive of assets acquired. Mr. Noto will pay for this interest with $1.2 million at closing, with the remaining $4.2 million to be paid in quarterly payments over twenty years. The payments will be offset from permitted periodic cash distributions to Mr. Noto by the venture, which are expected to fully fund the investors installment payments.

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

In July 2001 we invested in the Tulsa Auto Collection, a group of dealerships in Tulsa, Oklahoma. The Tulsa Auto Collection consists of seven dealerships representing the Ford, Lincoln-Mercury, Jaguar and Mazda brands. In addition, through the Tulsa Auto Collection, we operate two automotive care service centers and two used vehicle facilities in the Tulsa market.

Cyclicality

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

Seasonality

Our business is modestly seasonal overall. Our operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for cars and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where dealerships may be subject to harsh winters. Accordingly, we expect our revenues and profitability to be generally lower in our first and fourth quarters as compared to our second and third quarters. The greatest seasonalities exist with the dealerships we operate in the northeastern and upper mid-western United States, for which the second and third quarters are the strongest with respect to vehicle-related sales. The service and parts business at all dealerships experiences relatively modest seasonal fluctuations.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146) was issued in June 2002 and is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 addresses the timing of the recognition of exit costs associated with restructuring activities. Under the new standard, certain exit costs will be recognized over the period in which the restructuring activities occur, rather than at the point in time the Company commits to the restructuring plan. SFAS No. 146 is not expected to have a material impact on the Company s results of operations.

Effects of Inflation

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

We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on the prime rate or LIBOR. Such rates have historically increased during periods of increasing inflation. We do not believe that we would be placed at a competitive disadvantage should interest rates increase due to increased inflation since most other automotive dealerships have similar floating rate borrowing arrangements.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rates. We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding indebtedness. Outstanding balances under our credit agreements bear interest at a variable rate based on a margin over LIBOR, as defined. Based on the amount outstanding as of September 30, 2002, a 100 basis point change in interest rates would result in an approximate $3.6 million change to our annual interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over defined LIBOR or Prime rates. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements, a 100 basis point change in interest rates would result in an approximate $5.9 million change to our annual floor plan interest expense.

The Company continually evaluates its exposure to interest rate fluctuations and follows established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to reduce the effect of interest rate fluctuations on the Company s earnings and cash flows. The Company is currently party to a swap agreement pursuant to which a notional $200.0 million of our floating rate debt was exchanged for fixed rate debt through January 2008. The fixed rate interest paid by us is based on LIBOR and amounts to approximately 5.86%.

Interest rate fluctuations effect the fair market value of our fixed rate debt, including the senior subordinated notes, certain seller financed promissory notes and obligations under certain capital leases, but do not impact our earnings or cash flows.

Foreign Currency Exchange Rates. The Company currently has operations in the United Kingdom, Germany, Mexico and Brazil. In each of these markets, the local currency is the functional currency. Due to the Company s intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. Other than the United Kingdom, the Company s foreign operations are not significant. In the event we enter into transactions that expose the Company to foreign exchange fluctuations, or change our intent with respect to the investment in any of our international operations, the Company would expect to implement strategies designed to manage those risks in an effort to reduce the effect of foreign currency fluctuations on the Company s earnings and cash flows.

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

Forward Looking Statements

This Form 8-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, estimate, predict, potential, forecast, continue or variations of such terms, or the use of these terms in the negativ Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial performance;
- future acquisitions;
- future capital expenditures;
- our ability to obtain cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy;
- trends in the European automotive market;
- our plans and expectations with respect to Sytner;
- our ability to access the remaining availability under our credit agreement;
- our liquidity;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in the reports and our other periodic filings with the SEC. Important factors that could cause actual results to differ materially from our expectations include the following:

- automobile manufacturers exercise significant control over our operations and we depend on them in order to operate our business;
- because we depend on the success and popularity of the brands we sell, adverse conditions affecting one or more automobile manufacturers may negatively impact our revenues and profitability;
- if we are unable to complete additional acquisitions and successfully integrate acquisitions, we will be unable to achieve desired results from our acquisition strategy;
- we may not be able to satisfy our capital requirements for making acquisitions and financing the purchase of our inventory;

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

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

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

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

automotive retailing is a mature industry with limited potential in new vehicle sales;

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

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

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

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

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

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

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

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

our 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;

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

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

the Sytner acquisition exposes us to the risks involved in international operations;

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

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

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

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED AUTO GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2002	December 31, 2001
	(In Thousands) (Unaudited)	
ASSETS		
Cash and cash equivalents	$ 685	$ 2,952
Accounts receivable, net	305,313	239,610
Inventories	885,805	611,889
Other current assets	33,821	16,081
Total current assets	1,225,624	870,532
Property and equipment, net	274,259	181,290
Intangible assets, net	957,390	772,737
Assets of discontinued operations	34,193	66,624
Other assets	63,020	55,393
Total Assets	$ 2,554,486	$ 1,946,576
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Floor plan notes payable	$ 790,850	$ 586,620
Accounts payable	138,540	73,781
Accrued expenses	161,701	83,949
Current portion of long-term debt	9,217	4,202
Total current liabilities	1,100,308	748,552
Long-term debt	646,793	551,648
Other long-term liabilities	96,703	92,774
Liabilities of discontinued operations	21,281	37,919
Total liabilities	1,865,085	1,430,893
Stockholders Equity		
Series A Preferred Stock, $0.0001 par value; liquidation preference $10 per share; 10 shares authorized; none issued and outstanding at September 30, 2002; 9 issued and outstanding at December 31, 2001		
Series B Preferred Stock, $0.0001 par value; liquidation preference $10 per share; 10 shares authorized; none issued and outstanding at September 30, 2002; 1 issued and outstanding at December 31, 2001		
Common stock, $0.0001 par value, 80,000 shares authorized; 43,667 shares issued, including 4,830 treasury shares, at September 30, 2002; 23,540 shares issued, including 3,821 treasury shares, at December 31, 2001	4	2
Non-voting Common Stock, $0.0001 par value, 7,125 shares authorized; 1,759 issued and outstanding at September 30, 2002; none issued and outstanding at December 31, 2001		
Class C Common Stock, $0.0001 par value, 20,000 shares authorized; none issued and outstanding at September 30, 2002 and December 31, 2001		
Additional paid-in-capital	564,632	445,311
Retained earnings	133,142	78,750
Accumulated other comprehensive loss	(8,377)	(8,380)

Total stockholders equity	689,401	515,683
Total Liabilities and Stockholders Equity	$ 2,554,486	$ 1,946,576

See Notes to Consolidated Condensed Financial Statements

UNITED AUTO GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
	(In Thousands, Except per Share Amounts) (Unaudited)			
New vehicle sales	$ 1,227,100	$ 914,577	$ 3,303,753	$ 2,618,117
Used vehicle sales	411,161	272,765	1,106,603	807,329
Finance and insurance	49,920	38,306	133,283	106,705
Service and parts	207,586	152,247	565,221	435,614
Fleet sales	32,604	37,097	93,355	119,061
Wholesale vehicle sales	131,232	91,059	355,422	263,463
Total revenues	2,059,603	1,506,051	5,557,637	4,350,289
Cost of sales	1,771,953	1,294,050	4,767,825	3,745,316
Gross profit	287,650	212,001	789,812	604,973
Selling, general and administrative expenses	229,803	171,411	631,596	487,364
Operating income	57,847	40,590	158,216	117,609
Floor plan interest expense	(9,082)	(8,998)	(26,023)	(31,577)
Other interest expense	(9,990)	(7,992)	(27,834)	(27,217)
Income from continuing operations before minority interests and income taxes	38,775	23,600	104,359	58,815
Minority interests	(458)	(66)	(1,383)	(364)
Income taxes	(15,704)	(10,266)	(42,035)	(25,583)
Income from continuing operations	22,613	13,268	60,941	32,868
Income (loss) from discontinued operations, net of tax	(624)	220	648	595
Net income	21,989	13,488	61,589	33,463
Preferred dividends	(92)	(1,641)	(6,293)	(6,338)
Income available to common stockholders	$ 21,897	$ 11,847	$ 55,296	$ 27,125
Shares used in computing basic per share data	40,849	23,433	36,582	23,092
Shares used in computing diluted per share data	41,733	35,418	41,168	33,550
Basic income from continuing operations per common share	$ 0.55	$ 0.50	$ 1.49	$ 1.15
Basic net income per common share	$ 0.54	$ 0.51	$ 1.51	$ 1.17

Income from continuing operations per diluted common share	$ 0.54	$ 0.37	$ 1.48	$ 0.98
Net income per diluted common share	$ 0.53	$ 0.38	$ 1.50	$ 1.00

See Notes to Consolidated Condensed Financial Statements

UNITED AUTO GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW

	Nine Months Ended September 30,	
	2002	**2001**
	(In Thousands) (Unaudited)	
Operating activities:		
Net income	$ 61,589	$ 33,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,761	24,246
Minority interests	1,383	364
Changes in operating assets and liabilities		
Accounts receivable	(20,339)	(25,274)
Inventories	(118,089)	112,642
Floor plan notes payable	79,178	(79,540)
Accounts payable and accrued expenses	52,066	3,224
Other	(27,294)	11,687
Net cash provided by operating activities	44,255	80,812
Investing activities:		
Purchase of equipment and improvements	(140,049)	(65,939)
Proceeds from sale-leaseback transactions	80,000	
Dealership acquisitions, net	(191,631)	(105,756)
Net cash used in investing activities	(251,680)	(171,695)
Financing activities:		
Proceeds from borrowings of long-term debt	632,800	97,405
Payments of long-term debt and capital leases	(561,173)	(23,426)
Proceeds from issuance of common stock	135,318	14,835
Repurchase of common stock	(16,000)	(2,402)
Net cash provided by financing activities	190,945	86,412
Net cash distributed by discontinued operations	14,213	802
Net decrease in cash and cash equivalents	(2,267)	(3,669)
Cash and cash equivalents, beginning of period	2,952	5,090