

UNITED AUTO GROUP INC

Form 10-Q/A

January 23, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q/A  
(Amendment No. 1)**

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

**For the quarterly period ended June 30, 2005**

**or**

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

**For the transition period from to**

**Commission file number 1-12297**

**United Auto Group, Inc.**

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

**Delaware**

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

**22-3086739**

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

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

*(Address of principal executive offices)*

**48302-0954**

*(Zip Code)*

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

**(248) 648-2500**

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

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

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

As of August 1, 2005, there were 46,842,612 shares of common stock outstanding.

**Explanatory Note**

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

The changes in presentation have no effect on net income, earnings per share, stockholder's equity or our conclusion that our disclosure controls and procedures were effective as of June 30, 2005. All other information in this amendment is as of the date of the original filing and does not reflect any subsequent information or events occurring after the date of the original filing.

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## PART I

Financial Statements and Supplementary Data

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

	<b>June 30, 2005 (Restated)*</b>	<b>December 31, 2004 (Restated)*</b>
<b>(Unaudited)</b>		
<b>(In thousands, except per share amounts)</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,064	\$ 15,187
Accounts receivable, net	408,433	356,625
Inventories, net	1,271,904	1,252,358
Other current assets	60,169	44,315
Assets of discontinued operations	94,969	148,921
<b>Total current assets</b>	<b>1,846,539</b>	<b>1,817,406</b>
Property and equipment, net	430,418	406,783
Goodwill	1,040,242	1,038,647
Franchise value	184,736	183,084
Other assets	70,312	86,881
<b>Total Assets</b>	<b>\$ 3,572,247</b>	<b>\$ 3,532,801</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Floor plan notes payable	\$ 885,444	\$ 876,758
Floor plan notes payable-non-trade	283,016	320,782
Accounts payable	254,667	213,851
Accrued expenses	206,693	188,381
Current portion of long-term debt	3,561	11,367
Liabilities of discontinued operations	53,459	92,553
<b>Total current liabilities</b>	<b>1,686,840</b>	<b>1,703,692</b>
Long-term debt	604,576	574,970
Other long-term liabilities	182,363	179,104
<b>Total Liabilities</b>	<b>2,473,779</b>	<b>2,457,766</b>
Commitments and contingent liabilities		
<b>Stockholders Equity</b>		
Preferred Stock, \$0.0001 par value; 100 shares authorized; none issued and outstanding		
Common Stock, \$0.0001 par value, 80,000 shares authorized; 51,463 shares issued, including 4,859 treasury shares, at June 30, 2005; 51,333 shares issued, including 4,850 treasury shares, at	5	5

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December 31, 2004

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

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

Additional paid-in-capital	719,134	716,273
Retained earnings	351,812	305,881
Unearned compensation	(3,505)	(4,587)
Accumulated other comprehensive income	31,022	57,463

Total Stockholders Equity	1,098,468	1,075,035
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Total Liabilities and Stockholders Equity	\$ 3,572,247	\$ 3,532,801
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See Notes to Consolidated Condensed Financial Statements

\* See Note 1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
(Unaudited)				
(In thousands, except per share amounts)				
<b>Revenues</b>				
New vehicle	\$ 1,589,160	\$ 1,316,925	\$ 2,991,973	\$ 2,561,238
Used vehicle	582,894	503,912	1,132,798	1,001,766
Finance and insurance, net	61,038	49,738	117,339	99,480
Service and parts	280,749	229,594	553,254	456,347
Fleet and wholesale vehicle	229,972	186,157	440,566	367,357
<b>Total revenues</b>	<b>2,743,813</b>	<b>2,286,326</b>	<b>5,235,930</b>	<b>4,486,188</b>
<b>Cost of sales:</b>				
New vehicle	1,451,409	1,204,413	2,731,570	2,341,647
Used vehicle	529,573	459,185	1,028,452	912,848
Service and parts	127,206	104,770	252,099	208,355
Fleet and wholesale vehicle	229,900	185,580	439,516	365,513
<b>Total cost of sales</b>	<b>2,338,088</b>	<b>1,953,948</b>	<b>4,451,637</b>	<b>3,828,363</b>
<b>Gross profit</b>	<b>405,725</b>	<b>332,378</b>	<b>784,293</b>	<b>657,825</b>
<b>Selling, general and administrative expenses</b>				
Depreciation and amortization	10,404	8,542	20,677	16,782
<b>Operating income</b>	<b>77,262</b>	<b>66,868</b>	<b>139,912</b>	<b>124,424</b>
Floor plan interest expense	(14,201)	(10,511)	(27,481)	(23,236)
Other interest expense	(12,308)	(10,052)	(23,789)	(20,817)
Other income		6,611		6,611
<b>Income from continuing operations before minority interests and income taxes</b>	<b>50,753</b>	<b>52,916</b>	<b>88,642</b>	<b>86,982</b>
Minority interests	(621)	(502)	(764)	(822)
Income taxes	(18,725)	(20,549)	(32,707)	(33,770)
<b>Income from continuing operations</b>	<b>31,407</b>	<b>31,865</b>	<b>55,171</b>	<b>52,390</b>
<b>Income from discontinued operations, net of tax</b>	<b>1,789</b>	<b>1,138</b>	<b>917</b>	<b>817</b>
<b>Net income</b>	<b>\$ 33,196</b>	<b>\$ 33,003</b>	<b>\$ 56,088</b>	<b>\$ 53,207</b>
<b>Basic earnings per share:</b>				

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Continuing operations	\$	0.68	\$	0.69	\$	1.19	\$	1.20
Discontinued operations		0.04		0.02		0.02		0.02
Net income	\$	0.72	\$	0.72	\$	1.21	\$	1.21
Shares used in determining basic earnings per share		46,412		45,897		46,386		43,816
<b>Diluted earnings per share:</b>								
Continuing operations	\$	0.67	\$	0.68	\$	1.17	\$	1.18
Discontinued operations		0.04		0.02		0.02		0.02
Net income	\$	0.71	\$	0.71	\$	1.19	\$	1.19
Shares used in determining diluted earnings per share		47,041		46,565		47,025		44,548

See Notes to Consolidated Condensed Financial Statements

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

Six Months Ended June 30,

	2005 (Restated)*	2004 (Restated)*
	(Unaudited)	
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$ 56,088	\$ 53,207
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	20,677	16,782
Amortization of unearned compensation	1,261	766
Undistributed earnings of equity method investments	(1,251)	(1,723)
Income from discontinued operations, net of tax	(917)	(817)
Gain on sale of investment		(6,611)
Minority interests	764	822
Changes in operating assets and liabilities:		
Accounts receivable	(40,256)	3,011
Inventories	29,403	(78,551)
Floor plan notes payable	(23,407)	47,409
Accounts payable and accrued expenses	53,723	36,517
Other	7,038	(11,080)
Net cash from continuing operating activities	103,123	59,732
<b>Investing Activities:</b>		
Purchase of equipment and improvements	(101,380)	(90,721)
Proceeds from sale-leaseback transactions	53,275	13,374
Dealership acquisitions, net	(48,201)	(3,715)
Proceeds from sale of investment		7,703
Net cash from continuing investing activities	(96,306)	(73,359)
<b>Financing Activities:</b>		
Proceeds from borrowings under U.S. Credit Agreement	120,000	56,000
Repayments under U.S. Credit Agreement	(75,800)	(168,000)
Net borrowings (repayments) of other long-term debt	(14,806)	4,980
Net borrowings (repayments) of floor plan notes payable non-trade	(48,307)	917
Proceeds from issuance of common stock	2,181	127,343
Dividends	(10,157)	(8,734)
Net cash from continuing financing activities	(26,889)	12,506
<b>Discontinued Operations:</b>		
Net cash from discontinued operating activities	559	8,812
Net cash from discontinued investing activities	23,365	4,989



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Net cash from discontinued financing activities	(7,975)	(3,743)
Net cash from discontinued operations	15,949	10,058
Net increase (decrease) in cash and cash equivalents	(4,123)	8,937
Cash and cash equivalents, beginning of period	15,187	13,238
Cash and cash equivalents, end of period	\$ 11,064	\$ 22,175

**Supplemental disclosures of cash flow information:**

Cash paid for:

Interest	\$ 50,738	\$ 44,536
Income taxes	12,531	5,136
Seller financed debt	5,300	

See Notes to Consolidated Condensed Financial Statements

\* See Note 1

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Comprehensive Income (Loss)
	Issued Shares	Amount						
(Unaudited) (Dollars in thousands)								
Balances, January 1, 2005	46,482,604	\$ 5	\$ 716,273	\$ 305,881	\$ (4,587)	\$ 57,463	\$ 1,075,035	\$
Restricted stock	4,293		179		1,082		1,261	
Exercise of options, including tax benefit of \$501	117,173		2,682				2,682	
Fair value of interest rate swap agreements, net of tax						1,041	1,041	1,041
Foreign currency translation						(27,482)	(27,482)	(27,482)
Dividends				(10,157)			(10,157)	
Net income				56,088			56,088	56,088
Balances, June 30, 2005	46,604,070	\$ 5	\$ 719,134	\$ 351,812	\$ (3,505)	\$ 31,022	\$ 1,098,468	\$ 29,647

See Notes to Consolidated Condensed Financial Statements

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**UNITED AUTO GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except per share amounts)**

**1. Interim Financial Statements*****Basis of Presentation***

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

The Company's parts and service departments provide preparation and reconditioning services for its dealerships new and used vehicle departments, for which the new and used vehicle departments are charged as if they were third parties. During 2004, the Company determined that revenue and cost of sales had not been reduced by the intracompany charge for such work performed by certain of the Company's dealerships. Accordingly, service and parts revenue and cost of sales have been reduced by approximately \$19,515 and \$38,153 for the three and six months ended June 30, 2004, respectively. Service and parts revenue and cost of sales in 2005 do not include such intracompany charges. The eliminations do not have a material impact on service and parts revenue, gross profit, operating income, income from continuing operations, net income, earnings per share, cash flows, or financial position.

**Balance Sheet and Cash Flows**

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Floor Plan notes payable as previously reported	\$ 1,168,460	\$ 1,197,540
Reclassification of floor plan notes payable non-trade	(283,016)	(320,782)
Reported floor plan notes payable	\$ 885,444	\$ 876,758

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Floor Plan notes payable non-trade as previously reported	\$		\$	
Reclassification of floor plan notes payable non-trade		283,016		320,782
Reported floor plan notes payable non-trade	\$	283,016	\$	320,782

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

	Six Months Ended June 30,	
	2005	2004
Net cash from continuing operating activities as previously reported	\$ 54,816	\$ 60,649
Reclassification of floor plan notes payable non-trade	48,307	(917)
Reported net cash from continuing operating activities	\$ 103,123	\$ 59,732
Net cash from continuing financing activities as previously reported	\$ 21,418	\$ 11,589
Reclassification of floor plan notes payable non-trade	(48,307)	917
Reported net cash from continuing financing activities	\$ (26,889)	\$ 12,506

***Discontinued Operations***

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues	\$ 130,557	\$ 155,708	\$ 295,478	\$ 314,537
Pre-tax income (loss)	(1,644)	53	(3,023)	(1,693)
Gain on disposal	4,479	1,805	4,476	3,028

	June 30, 2005	December 31, 2004
Inventories	\$ 52,754	\$ 84,780
Other assets	42,215	64,141
Total Assets	\$ 94,969	\$ 148,921
Floor plan notes payable	\$ 46,045	\$ 78,178
Other liabilities	7,414	14,375
Total Liabilities	\$ 53,459	\$ 92,553

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

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

**Estimates**

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

**Intangible Assets**

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

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the six months ended June 30, 2005:

	<b>Goodwill</b>	<b>Franchise Value</b>
Balance January 1, 2005	\$ 1,038,647	\$ 183,084
Additions during period	16,067	7,106
Foreign currency translation	(14,472)	(5,454)
Balance June 30, 2005	\$ 1,040,242	\$ 184,736

As of June 30, 2005 approximately \$613,470 of the Company's goodwill is deductible for tax purposes. The Company has established deferred tax liabilities related to the temporary differences arising from such tax deductible goodwill.

**Stock-Based Compensation**

Key employees, outside directors, consultants and advisors of the Company are eligible to receive stock-based compensation pursuant to the terms of the Company's 2002 Equity Compensation Plan (the Plan). The Plan provides for the issuance of up to 2,100 shares for stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and other awards. As of June 30, 2005, 1,768 shares of common stock were available for grant under the Plan.

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

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elected to recognize compensation expense for option grants using the fair value method, pro forma net income and pro forma basic and diluted earnings per share would have been as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income(1)	\$ 33,196	\$ 33,003	\$ 56,088	\$ 53,207
Fair value method compensation expense attributable to stock-based compensation, net of tax	3	293	197	634
Pro forma net income	\$ 33,193	\$ 32,710	\$ 55,891	\$ 52,573
Basic earnings per share	\$ 0.72	\$ 0.72	\$ 1.21	\$ 1.21
Pro forma basic earnings per share	\$ 0.72	\$ 0.71	\$ 1.20	\$ 1.20
Diluted earnings per share	\$ 0.71	\$ 0.71	\$ 1.19	\$ 1.19
Pro forma diluted earnings per share	\$ 0.71	\$ 0.70	\$ 1.19	\$ 1.18
Weighted average fair value of options granted	n/a	n/a	\$ 8.61	n/a
Expected dividend yield	n/a	n/a	1.6%	n/a
Risk free interest rates	n/a	n/a	4.00%	n/a
Expected life	n/a	n/a	5.0 years	n/a
Expected volatility	n/a	n/a	30.28%	n/a

(1) Includes approximately \$415 and \$222 of compensation expense, net of tax, related to restricted stock grants, for the three month periods ended June 30, 2005 and 2004, respectively, and approximately \$797 and \$481 for the six month periods ended June 30, 2005 and 2004, respectively.

***New Accounting Pronouncements***

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



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

**2. Inventories**

Inventories consisted of the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
New vehicles	\$ 954,918	\$ 956,131
Used vehicles	254,192	236,929
Parts, accessories and other	62,794	59,298
Total net inventories	\$ 1,271,904	\$ 1,252,358

The Company receives non-refundable credits from certain of its vehicle manufacturers, which are treated as a reduction of cost of goods sold when the vehicles are sold. Such credits amounted to \$9,978 and \$8,423 during the three months ended June 30, 2005 and 2004, respectively, and \$16,492 and \$15,582 during the six months ended June 30, 2005 and 2004, respectively.

**3. Business Combinations**

During the six months ended June 30, 2005, the Company acquired seven automobile dealership franchises. The aggregate consideration paid in connection with the acquisitions amounted to approximately \$48,201 in cash and a seller financed note in the amount of \$5,300. The consolidated condensed balance sheets include preliminary allocations of the purchase price relating to such acquisitions, resulting in the recognition of \$16,067 of goodwill and \$7,106 of franchise value. During the six months ended June 30, 2004, the Company acquired three automobile dealership franchises. The aggregate consideration paid in connection with such acquisitions amounted to approximately \$3,715 in cash. The Company's financial statements include the results of operations of the acquired dealerships from the date of acquisition.

The following unaudited consolidated pro forma results of operations of the Company for the three and six months ended June 30, 2005 and 2004 give effect to net acquisitions consummated during the respective periods as if they had occurred on January 1, 2004.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenues	n/a	\$ 2,356,000	\$ 5,245,923	\$ 4,627,197
Income from continuing operations	n/a	32,000	55,229	52,648
Net income	n/a	33,138	56,146	53,465
Net income per diluted common share	n/a	\$ 0.71	\$ 1.19	\$ 1.20

**4. Floor Plan Notes Payable**

The Company finances substantially all of its new and a portion of its used vehicle inventories under revolving floor plan notes payable with various lenders. In the U.S., the floor plan arrangements are due on demand; however, the Company is generally not required to make loan principal repayments prior to the sale of the financed vehicles. The Company typically makes monthly interest payments on the amount financed. In the U.K., substantially all of our floor plan arrangements are payable on demand or have an original maturity of 90 days or less. The floor plan

agreements grant a security interest in substantially all of the assets of the Company's dealership subsidiaries. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in prime or LIBOR borrowing rates. The Company classifies floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-trade on its Consolidated Condensed Balance Sheets.

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

**5. Earnings Per Share**

Basic earnings per share is computed using net income and weighted average shares outstanding. Diluted earnings per share is computed using net income and the weighted average shares outstanding, adjusted for the dilutive effect of stock options and restricted stock. As of June 30, 2005, 2 shares attributable to outstanding common stock equivalents were excluded from the calculation of diluted earnings per share because the effect of such securities was antidilutive. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2005 and 2004 follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Weighted average shares outstanding	46,412	45,897	46,386	43,816
Effect of stock options	436	458	425	495
Effect of restricted stock	193	210	214	237
Weighted average shares outstanding, including effect of dilutive securities	47,041	46,565	47,025	44,548

**6. Long Term Debt**

Long-term debt consisted of the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
U.S. Credit Agreement	\$ 299,000	\$ 254,800
U.K. Credit Agreement		16,836
9.625% Senior Subordinated Notes due 2012	300,000	300,000
Other	9,137	14,701
Total long-term debt	608,137	586,337
Less: Current portion	3,561	11,367
Net long-term debt	\$ 604,576	\$ 574,970

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

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

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company's domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company's

ability to dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity, a ratio of debt to EBITDA, a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders' equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and

**Table of Contents****UNITED AUTO GROUP, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

acceleration of the amounts owed. As of June 30, 2005, the Company was in compliance with all covenants under the U.S. Credit Agreement, and management believes the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments of the domestic subsidiaries.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to the Company's other material indebtedness. Substantially all of the Company's domestic assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. Credit Agreement. As of June 30, 2005, outstanding borrowings and letters of credit under the U.S. Credit Agreement amounted to \$299,000 and \$34,500, respectively.

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

The Company's subsidiaries in the U.K. (the U.K. Subsidiaries) are party to a credit agreement with the Royal Bank of Scotland dated February 28, 2003, as amended (the U.K. Credit Agreement), which provides for up to £65,000 in revolving and term loans to be used for acquisitions, working capital, and general corporate purposes. Revolving loans under the U.K. Credit Agreement have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.85% and defined LIBOR plus 1.25%. The U.K. Credit Agreement also provides for an additional seasonally adjusted overdraft line of credit up to a maximum of £15,000. Term loan capacity under the U.K. Credit Agreement was originally £10,000, which is reduced by £2,000 every six months. As of June 30, 2005, term loan capacity under the U.K. Credit Agreement amounted to £4,000. The remaining £55,000 of revolving loans mature on June 30, 2007.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, the U.K. Subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. Credit Agreement, including: a measurement of net worth, a debt to capital ratio, an EBITDA to interest expense ratio, a measurement of maximum capital expenditures, a debt to EBITDA ratio, and a fixed charge coverage ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2005, the Company was in compliance with all covenants under the U.K. Credit Agreement, and management believes that the Company will remain in compliance with such covenants for the foreseeable future. In making such determination, management has considered the current margin of compliance with the covenants and expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments of the U.K. Subsidiaries.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations. Substantially all of the U.K. Subsidiaries' assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. Credit Agreement. The U.K. Credit Agreement also has cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of the U.K. Subsidiaries. As of June 30, 2005, there were no outstanding borrowings under the U.K. Credit Agreement.

***Senior Subordinated Notes***

The Company has outstanding \$300,000 aggregate principal amount of 9.625% Senior Subordinated Notes due 2012 (the Notes). The Notes are unsecured senior subordinated notes and rank behind all existing and future senior debt, including debt under our credit agreements and floor plan indebtedness. The

**Table of Contents****UNITED AUTO GROUP, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

Notes are guaranteed by substantially all domestic subsidiaries on a senior subordinated basis. The Company can redeem all or some of the Notes at its option beginning in 2007 at specified redemption prices. Upon a change of control, each holder of Notes will be able to require the Company to repurchase all or some of the Notes at a redemption price of 101% of the principal amount of the Notes. The Notes also contain customary negative covenants and events of default. As of June 30, 2005, the Company was in compliance with all covenants and there were no events of default.

**7. Interest Rate Swaps**

The Company is party to an interest rate swap agreement through January 2008 pursuant to which a notional \$200,000 of its U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of the LIBOR based U.S. floor plan borrowings. As of June 30, 2005, the Company expects approximately \$2,085 of interest associated with the swap to be reclassified as a charge to income over the next twelve months.

**8. Commitments and Contingent Liabilities**

From time to time, the Company is involved in litigation relating to claims arising in the normal course of business. Such claims may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of June 30, 2005, the Company is not party to any legal proceeding, including class action lawsuits to which it is a party, that, individually or in the aggregate, is expected to have a material adverse effect on the Company's results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's results of operations, financial condition or cash flows.

In connection with an acquisition of dealerships completed in October 2000, the Company agreed to make a contingent payment in cash to the extent 841 shares of common stock issued as consideration for the acquisition are sold subsequent to the fifth anniversary of the transaction and have a market value of less than \$12.00 per share at the time of sale. The Company will be forever released from this guarantee in the event the average daily closing price of its common stock for any 90 day period subsequent to the fifth anniversary of the transaction exceeds \$12.00 per share. In the event the Company is required to make a payment relating to this guarantee, such payment would result in the revaluation of the common stock issued in the transaction, resulting in a reduction of additional paid-in-capital. The Company has further granted the seller a put option pursuant to which the Company may be required to repurchase a maximum of 108 shares for \$12.00 per share on each of the first five anniversary dates of the transaction. To date, no payments have been made relating to the put option. As of June 30, 2005, the maximum future cash payment that the Company may be required to make in connection with the put option amounted to \$1,300.

The Company has entered into an agreement with a third party to jointly acquire and manage dealerships in Indiana, Illinois, Ohio, North Carolina and South Carolina. With respect to any joint venture relationship established pursuant to this agreement, the Company is required to repurchase its partner's interest at the end of the five-year period following the date of formation of the joint venture relationship. Pursuant to this arrangement, the Company has entered into a joint venture agreement with respect to the Honda of Mentor dealership. The Company is required to repurchase its partner's interest in this joint venture relationship in July 2008. The Company expects this payment to be approximately \$2,700.

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

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

**9. Consolidating Condensed Financial Information**

The following tables include consolidating condensed financial information as of June 30, 2005 and December 31, 2004 and for the three and six month periods ended June 30, 2005 and 2004 for United Auto Group, Inc. (as the issuer of the Notes), wholly-owned subsidiary guarantors, non-wholly owned subsidiary guarantors, and non-guarantor subsidiaries (primarily representing foreign entities). The consolidating condensed financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations and cash flows of these entities on a stand-alone basis.

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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Balance Sheet**  
**(Unaudited)**  
**June 30, 2005**  
**(Restated)**

			Non-Wholly Owned Guarantor Subsidiaries						
	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut LLC	UAG Mentor Acquisition LLC	UAG Central NJ, LLC	Non-Guarantor Subsidiaries
(In thousands)									
Cash and cash equivalents	\$ 11,064	\$	\$ 6,397	\$	\$	\$ 786	\$ 539	\$ 967	\$ 2,375
Accounts receivable, net	408,433	(38,183)	38,183	269,597	10,446	5,548	2,233	1,946	118,663
Inventories, net	1,271,904			801,964	28,055	24,048	6,321	3,470	408,046
Other current assets	60,169		5,232	26,273	653	30	3	23	27,955
Assets of discontinued operations	94,969			94,969					
<b>Total current assets</b>	<b>1,846,539</b>	<b>(38,183)</b>	<b>49,812</b>	<b>1,192,803</b>	<b>39,154</b>	<b>30,412</b>	<b>9,096</b>	<b>6,406</b>	<b>557,039</b>
Property and equipment, net	430,418		4,398	252,086	6,199	3,446	1,799	3,767	158,723
Intangible assets	1,224,978			863,204	68,281	20,738	3,722		269,033
Other assets	70,312	(1,033,745)	1,050,175	20,779	149	110			32,844
<b>Total Assets</b>	<b>\$ 3,572,247</b>	<b>\$ (1,071,928)</b>	<b>\$ 1,104,385</b>	<b>\$ 2,328,872</b>	<b>\$ 113,783</b>	<b>\$ 54,706</b>	<b>\$ 14,617</b>	<b>\$ 10,173</b>	<b>\$ 1,017,639</b>
Floor plan notes payable	\$ 885,444	\$	\$	\$ 573,478	\$ 11,429	\$ 8,957	\$ 5,712	\$	\$ 285,868
Floor plan notes payable									
Non-Trade	283,016			189,377	11,505	10,911		3,725	67,498
	254,667		4,744	108,895	6,562	1,877	418	2,660	129,511



Accounts payable									
Accrued expenses	206,693	(38,183)	1,173	48,870	27,834	12,637	2,135	412	151,815
Current portion of long-term debt	3,561			3,561					
Liabilities of discontinued operations	53,459			53,459					
Total current liabilities	1,686,840	(38,183)	5,917	977,640	57,330	34,382	8,265	6,797	634,692
Long-term debt	604,576			361,801	63,151	21,361	3,842	3,119	151,302
Other long-term liabilities	182,363			166,074	10,907	1,071	3,727	77	507
Total Liabilities	2,473,779	(38,183)	5,917	1,505,515	131,388	56,814	15,834	9,993	786,501
Total Stockholders Equity	1,098,468	(1,033,745)	1,098,468	823,357	(17,605)	(2,108)	(1,217)	180	231,138
Total Liabilities and Stockholders Equity	\$ 3,572,247	\$ (1,071,928)	\$ 1,104,385	\$ 2,328,872	\$ 113,783	\$ 54,706	\$ 14,617	\$ 10,173	\$ 1,017,639

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

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

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

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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Three Months Ended June 30, 2005**

	Non-Wholly Owned Guarantor Subsidiaries								
	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut LLC	UAG Mentor Acquisition LLC	UAG Central NJ, LLC	Non- Guarantor Subsidiaries
(In thousands)									
Total revenues	\$ 2,743,813	\$	\$	\$ 1,740,183	\$ 72,462	\$ 42,817	\$ 14,641	\$ 11,057	\$ 862,653
Cost of sales	2,338,088			1,480,976	59,022	35,831	12,666	9,628	739,965
Gross profit	405,725			259,207	13,440	6,986	1,975	1,429	122,688
Selling, general, and administrative expenses	318,059		3,160	202,170	10,399	5,250	1,470	893	94,717
Depreciation and amortization	10,404		537	5,953	235	113	50	68	3,448
Operating income (loss)	77,262		(3,697)	51,084	2,806	1,623	455	468	24,523
Floor plan interest expense	(14,201)			(9,643)	(294)	(330)	(68)	(29)	(3,837)
Other interest expense	(12,308)			(8,108)	(887)	(300)	(279)	(109)	(2,625)
Equity in earnings of subsidiaries		(67,137)	67,137						
Income (loss) from continuing operations before minority interests and income taxes	50,753	(67,137)	63,440	33,333	1,625	993	108	330	18,061
Minority interests	(621)			(346)	(97)	(119)		(59)	
Income taxes	(18,725)	26,976	(25,490)	(13,369)	(653)	(399)	(43)	(133)	(5,614)

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Income (loss) from continuing operations	31,407	(40,161)	37,950	19,618	875	475	65	138	12,447
Income from discontinued operations, net of tax	1,789			1,848					(59)
Net income (loss)	\$ 33,196	\$ (40,161)	\$ 37,950	\$ 21,466	\$ 875	\$ 475	\$ 65	\$ 138	\$ 12,388

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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Six Months Ended June 30, 2005**

	Non-Wholly Owned Guarantor Subsidiaries								
	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut LLC	UAG Mentor Acquisition LLC	UAG Central NJ, LLC	Non- Guarantor Subsidiaries
(In thousands)									
Total revenues	\$ 5,235,930	\$	\$	\$ 3,268,524	\$ 124,478	\$ 77,224	\$ 26,872	\$ 16,691	\$ 1,722,141
Cost of sales	4,451,637			2,773,848	100,239	64,272	23,276	14,617	1,475,385
Gross profit	784,293			494,676	24,239	12,952	3,596	2,074	246,756
Selling, general, and administrative expenses	623,704		6,356	395,174	19,763	10,312	2,790	1,572	187,737
Depreciation and amortization	20,677		792	12,151	463	221	99	135	6,816
Operating income (loss)	139,912		(7,148)	87,351	4,013	2,419	707	367	52,203
Floor plan interest expense	(27,481)			(18,331)	(516)	(608)	(117)	(52)	(7,857)
Other interest expense	(23,789)			(15,226)	(1,798)	(597)	(557)	(222)	(5,389)
Equity in earnings of subsidiaries		(122,981)	122,981						
Income (loss) from continuing operations before minority interests and income taxes	88,642	(122,981)	115,833	53,794	1,699	1,214	33	93	38,957
Minority interests	(764)			(500)	(101)	(144)		(19)	

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Income taxes	(32,707)	51,564	(48,559)	(22,353)	(686)	(496)	(10)	(29)	(12,138)
Income (loss) from continuing operations	55,171	(71,417)	67,274	30,941	912	574	23	45	26,819
Income from discontinued operations, net of tax	917			1,098					(181)
Net income (loss)	\$ 56,088	\$ (71,417)	\$ 67,274	\$ 32,039	\$ 912	\$ 574	\$ 23	\$ 45	\$ 26,638

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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Three Months Ended June 30, 2004**

	Non-Wholly Owned Guarantor Subsidiaries							
	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut LLC	UAG Mentor Acquisition LLC	Non-Guarantor Subsidiaries
(In thousands)								
Total revenues	\$ 2,286,326	\$	\$	\$ 1,499,859	\$ 65,885	\$ 41,989	\$ 14,806	\$ 663,787
Cost of sales	1,953,948			1,278,277	54,584	35,413	13,052	572,622
Gross profit	332,378			221,582	11,301	6,576	1,754	91,165
Selling, general, and administrative expenses	256,968		3,442	166,732	8,655	4,715	1,447	71,977
Depreciation and amortization	8,542		290	5,424	402	123	51	2,252
Operating income (loss)	66,868		(3,732)	49,426	2,244	1,738	256	16,936
Floor plan interest expense	(10,511)			(7,643)	(176)	(164)	(38)	(2,490)
Other interest expense	(10,052)			(6,267)	(836)	(166)	(255)	(2,528)
Other income	6,611							6,611
Equity in earnings of subsidiaries		(56,617)	56,617					
Income (loss) from continuing operations before minority interests and income taxes	52,916	(56,617)	52,885	35,516	1,232	1,408	(37)	18,529
Minority interests	(502)			(265)	(72)	(165)		
Income taxes	(20,549)	23,327	(21,789)	(14,673)	(508)	(580)	15	(6,341)
	31,865	(33,290)	31,096	20,578	652	663	(22)	12,188



Income (loss)  
from continuing  
operations

Income from  
discontinued  
operations, net  
of tax

1,138

1,061

77

Net income  
(loss)

\$ 33,003 \$ (33,290) \$ 31,096 \$ 21,639 \$ 652 \$ 663 \$ (22) \$ 12,265

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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Income**  
**(Unaudited)**  
**Six Months Ended June 30, 2004**

	Non-Wholly Owned Guarantor Subsidiaries							
	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut LLC	UAG Mentor Acquisition LLC	Non- Guarantor Subsidiaries
(In thousands)								
Total revenues	\$ 4,486,188	\$	\$	\$ 2,879,033	\$ 122,934	\$ 80,293	\$ 27,086	\$ 1,376,842
Cost of sales	3,828,363			2,449,474	101,903	67,785	23,807	1,185,394
Gross profit	657,825			429,559	21,031	12,508	3,279	191,448
Selling, general, and administrative expenses	516,619		6,302	337,014	16,591	9,462	2,727	144,523
Depreciation and amortization	16,782		558	10,755	652	243	102	4,472
Operating income (loss)	124,424		(6,860)	81,790	3,788	2,803	450	42,453
Floor plan interest expense	(23,236)			(17,465)	(357)	(306)	(73)	(5,035)
Other interest expense	(20,817)			(13,354)	(1,415)	(332)	(510)	(5,206)
Other income	6,611							6,611
Equity in earnings of subsidiaries		(93,935)	93,935					
Income (loss) from continuing operations before minority interests and income taxes	86,982	(93,935)	87,075	50,971	2,016	2,165	(133)	38,823
Minority interests	(822)			(477)	(109)	(236)		
Income taxes	(33,770)	43,217	(40,012)	(22,708)	(926)	(983)	66	(12,424)
	52,390	(50,718)	47,063	27,786	981	946	(67)	26,399

Income (loss)  
from continuing  
operations

Income from discontinued operations, net of tax	817	850	(33)
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Net income  
(loss)

\$ 53,207	\$ (50,718)	\$ 47,063	\$ 28,636	\$ 981	\$ 946	\$ (67)	\$ 26,366
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**UNITED AUTO GROUP, INC.**  
**Consolidating Condensed Statement of Cash Flows**  
**(Unaudited)**  
**Six Months Ended June 30, 2005**  
**(Restated)**

**Non-Wholly Owned Guarantor  
Subsidiaries**

	<b>Total Company</b>	<b>United Auto Group, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>HBL LLC</b>	<b>UAG Connecticut LLC</b>	<b>UAG Mentor Acquisition LLC</b>	<b>UAG Central NJ, LLC</b>	<b>Non- Guarantor Subsidiaries</b>
<b>(In thousands)</b>								
Net cash from continuing operating activities	\$ 103,123	\$ (5,839)	\$ 67,658	\$ 3,476	\$ 3,955	\$ 747	\$ (272)	\$ 33,398
<b>Investing Activities:</b>								
Purchase of equipment and improvements	(101,380)	(1,402)	(59,917)	(621)	(4,501)	(83)	(89)	(34,767)
Proceeds from sale leaseback transactions	53,275		32,713		3,251			17,311
Dealership acquisitions, net	(48,201)		(28,851)					(19,350)
Net cash from continuing investing activities	(96,306)	(1,402)	(56,055)	(621)	(1,250)	(83)	(89)	(36,806)
<b>Financing Activities:</b>								
Net borrowings (repayments) of long-term debt	29,394	7,976	23,176				98	(1,856)
Net borrowings (repayments) of floor plan notes payable non-trade	(48,307)		(43,016)	(956)	(2,905)		1,230	(2,660)
Proceeds from issuance of common stock	2,181	2,181						
Distributions from (to) parent			(4,278)	(1,899)	(438)	(250)		6,865
Dividends	(10,157)	(10,157)						

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Net cash from continuing financing activities	(26,889)	(24,118)	(2,855)	(3,343)	(250)	1,328	2,349
Net cash from discontinued operations	15,949	12,515					3,434
Net increase (decrease) in cash and cash equivalents	(4,123)	(7,241)		(638)	414	967	2,375
Cash and cash equivalents, beginning of period	15,187	13,638		1,424	125		