TRANSATLANTIC HOLDINGS INC
Form 425
November 03, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 3, 2011 (September 23, 2011)**

VALIDUS HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**001-33606**	**98-0501001**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

29 Richmond Road, Pembroke, HM 08 Bermuda
(Address of principal executive offices)

Registrant's telephone number, including area code: **(441) 278-9000**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

ý Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

Revised Validus Merger Offer

Validus Holdings, Ltd. ("Validus") has delivered a letter containing an increased offer to the board of directors (the "Transatlantic Board") of Transatlantic Holdings, Inc. ("Transatlantic") pursuant to which Validus would acquire Transatlantic through an exchange offer and a second-step merger transaction for 1.5564 voting common shares, par value $0.175 per share of Validus (the "Validus Shares"), for each outstanding share of common stock, par value $1.00 per share, of Transatlantic (the "Transatlantic Shares") and Transatlantic would pay a special dividend of $11.00 in cash per Transatlantic Share (which may be increased by the amount of the Special Excess Dividend (as defined below)) immediately prior to the expiration time of the exchange offer (the "Validus Merger Offer"). The Validus Merger Offer could be structured to be tax-free to Transatlantic stockholders with respect to the Validus Shares to be issued thereunder. The special dividend of $11.00 in cash and any Special Excess Dividend in the Validus Merger Offer will generally be taxable to U.S. stockholders of Transatlantic and may be subject to withholding taxes for non-U.S. stockholders of Transatlantic, although many such non-U.S. stockholders may be eligible for a reduced rate of withholding tax, or an elimination of withholding tax, under an applicable tax treaty. Because individual circumstances may differ, Validus urges Transatlantic stockholders to consult with their own tax advisors as to the specific tax consequences of the Validus Merger Offer and the Special Excess Dividend, including the applicability of U.S., federal, state, local, non-U.S. and other tax laws.

Validus expects that the cash special dividend would be financed by new indebtedness incurred by Transatlantic. Validus has obtained a highly confident letter from J.P. Morgan Securities LLC in connection with the arrangement of financing for the full amount of the $11.00 per share cash special dividend.

Validus has notified Transatlantic that it would permit Transatlantic, pursuant to the terms of the Validus Merger Offer and Validus Exchange Offer (as defined below), to pay up to a $2.00 per share cash special dividend (less applicable taxes and without interest); the aggregate amount available to pay this cash special dividend to all Transatlantic stockholders would be reduced on a dollar-for-dollar basis for any funds used by Transatlantic for share repurchases made after October 31, 2011 (such dividend, the "Special Excess Dividend"). Therefore, if Transatlantic continues share repurchases from selling stockholders it will result in a lower Special Excess Dividend payable to all Transatlantic stockholders in a transaction with Validus. Validus cannot be assured of the timing or amounts of any ongoing Transatlantic share repurchases and therefore cannot ensure that the full amount of the Special Excess Dividend would be made available to all Transatlantic stockholders. Any Special Excess Dividend will be funded from available cash on hand at Transatlantic.

The Transatlantic Board has failed to accept the Validus Merger Offer.

Amendment to Validus Exchange Offer

On November 3, 2011, Validus announced that it had amended the terms of the exchange offer that it commenced on July 25, 2011 (the "Validus Exchange Offer") to include offer consideration of 1.5564 Validus Shares and $11.00 in cash (less applicable withholding taxes and without interest) per Transatlantic Share and to permit Transatlantic to pay up to a $2.00 per share Special Excess Dividend (less applicable taxes and without interest) prior to the expiration time of the Validus Exchange Offer. A copy of the press release announcing, among other matters, the amendment to the Validus Exchange Offer is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference in its entirety.

The Validus Exchange Offer and second-step merger pursuant to which Validus will acquire any Transatlantic Shares outstanding following consummation of the Validus Exchange Offer will be a taxable transaction for U.S. federal income tax purposes. U.S. holders of Transatlantic Shares generally will recognize gain or loss equal to the difference, if any, between (i) the sum of the cash and fair market value of the Validus Shares received by such U.S. holder in the Validus Exchange Offer and

second-step merger (including cash received in lieu of fractional shares) and (ii) such U.S. holder's adjusted tax basis in the Transatlantic Shares surrendered in exchange therefor. Any gain or loss recognized upon the Validus Exchange Offer or second-step merger generally will be treated as capital gain or loss. Any Special Excess Dividend received by Transatlantic stockholders will generally be taxable to U.S. stockholders of Transatlantic and may be subject to withholding taxes for non-U.S. stockholders of Transatlantic, although many such non-U.S. stockholders may be eligible for a reduced rate of withholding tax, or an elimination of withholding tax, under an applicable tax treaty. Because individual circumstances may differ, Validus urges Transatlantic stockholders to consult with their own tax advisors as to the specific tax consequences of the Validus Exchange Offer and the Special Excess Dividend, including the applicability of U.S., federal, state, local, non-U.S. and other tax laws.

Validus Share Repurchase Program

On November 3, 2011, Validus announced that the board of directors of Validus (the "Validus Board") has approved, through open market purchases or otherwise, an increase in Validus' existing share repurchase authorization to a total of $1 billion, contingent upon the consummation of the acquisition of Transatlantic by Validus.

Updates to Transaction Background Since September 23, 2011

On September 23, 2011, Transatlantic and Validus entered into a confidentiality agreement (the "Confidentiality Agreement") pursuant to which they exchanged non-public information. Pursuant to the Confidentiality Agreement, Validus agreed, during a period that expired at 11:59 p.m., Eastern time, on October 31, 2011 (the "Restricted Period"), not to take or enter into an agreement with any third party regarding certain actions, including acquiring any additional Transatlantic Shares, mailing Validus' consent solicitation statement regarding the removal and replacement of the Transatlantic Board to Transatlantic stockholders or collecting consent cards in connection therewith or seeking to call a special meeting of Transatlantic's stockholders pursuant to Transatlantic's bylaws. Validus and Transatlantic also agreed to take no action with respect to their pending litigation in the Chancery Court of Delaware and United States District Court for the State of Delaware during the Restricted Period.

Also on September 23, 2011, Validus issued a press release announcing that it had entered into the Confidentiality Agreement and extended the Validus Exchange Offer to 5:00 p.m., Eastern time, on October 31, 2011, unless further extended by Validus.

On September 24, 2011 and September 25, 2011, Edward Noonan, Chief Executive Officer and Chairman of the board of directors of Validus, and Michael Sapnar, Executive Vice President and Chief Operating Officer of Transatlantic, and representatives of Greenhill & Co., LLC ("Greenhill"), Validus' financial advisor, and Goldman, Sachs & Co. ("Goldman Sachs") and Moelis & Company LLC ("Moelis"), Transatlantic's financial advisors, engaged in discussions regarding the processes under which Transatlantic and Validus would exchange non-public information.

Beginning on September 26, 2011 and continuing through November 2, 2011, representatives of Transatlantic and Validus and their respective advisors engaged in mutual due diligence, including through electronic data rooms, conference calls and in-person meetings. This diligence process, performed in consultation with an internationally recognized actuarial firm, generally confirmed Validus' prior view of Transatlantic's business, operations and reserve levels.

On October 5, 2011, representatives of Transatlantic and Validus and their respective advisors met to discuss structuring the Validus Exchange Offer and the second-step merger to permit Validus Shares issuable to Transatlantic stockholders to be received on a tax-free basis.

On October 16, 2011, Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), Validus' outside legal counsel, delivered a draft of an agreement and plan of merger to Gibson Dunn & Crutcher LLP ("Gibson Dunn"), Transatlantic's outside legal counsel, which contemplated that Validus would acquire

all issued and outstanding Transatlantic Shares pursuant to an amended Validus Exchange Offer and second-step merger.

On October 25, 2011, the Validus Board met to receive an update on the due diligence on Transatlantic that had been conducted by Validus' management and its advisors and discuss a possible revision to the terms of the transaction proposal initially publicly announced by Validus on July 12, 2011 (the "Initial Validus Proposal"). During this meeting, the Validus Board discussed with Validus' management the parameters of a potential increase in the cash component of the Initial Validus Proposal.

On October 26, 2011, based on instruction from Validus' management, Greenhill advised Goldman Sachs and Moelis that, based in part on Validus' findings in due diligence, Validus was considering a potential increase in the size of the special dividend contemplated by the Initial Validus Proposal by $3.00 in cash per share, for a total of $11.00 per share, while maintaining the exchange ratio at 1.5564 Validus Shares per Transatlantic Share. Greenhill noted that this transaction would be consummated on the basis of the two-step merger agreement that had been delivered by Skadden, Arps to Gibson Dunn on October 16, 2011. Greenhill advised Goldman Sachs and Moelis of its view that agreement by Validus and Transatlantic on such a transaction could be reached prior to the expiration of the Restricted Period under the Confidentiality Agreement.

On October 27, 2011, Greenhill, Goldman Sachs and Moelis engaged in discussions regarding transaction related diligence matters raised by Transatlantic. Mr. Noonan and Mr. Sapnar also had a telephone conversation which covered these additional diligence matters.

On October 28, 2011, Mr. Noonan and Joseph E. (Jeff) Consolino, President and Chief Financial Officer of Validus, met with Mr. Sapnar and Steven Skalicky, Executive Vice President and Chief Financial Officer of Transatlantic, to discuss transaction related diligence matters. Later that evening, representatives of Greenhill, Goldman Sachs and Moelis engaged in further discussion regarding these matters.

On October 29, 2011 and October 30, 2011, Mr. Noonan and Mr. Sapnar and representatives of Greenhill, Goldman Sachs and Moelis continued their discussions.

On October 31, 2011, Goldman Sachs and Moelis contacted Greenhill to report the Transatlantic Board's views regarding the potential increase to the Initial Validus Proposal that had been discussed the previous week, including the potential parameters of an acceptable increased offer. Later that day, following discussions with Transatlantic management, Greenhill called Goldman Sachs and Moelis to discuss the possibility of Validus permitting Transatlantic to pay a $2.00 per share dividend out of Transatlantic's cash on hand in addition to the $11.00 per share special dividend previously proposed by Validus and to review governance issues. Mr. Noonan and Mr. Sapnar engaged in telephone discussions regarding a potential transaction following this call.

At 11:59 p.m., Eastern time, on October 31, 2011, the Restricted Period under the Confidentiality Agreement expired.

On November 1, 2011, Validus announced in a press release that it had extended the expiration time of the Validus Exchange Offer to 5:00 p.m., Eastern time, on Friday, November 25, 2011, and that Validus and Transatlantic continued to exchange information and remained in discussions regarding a possible transaction. Validus thereafter filed Amendment No. 19 to Validus' Schedule TO relating to the Validus Exchange Offer to reflect the extension of the expiration time of the Validus Exchange Offer.

Also on November 1, 2011, Goldman Sachs and Moelis reported to Greenhill that the Transatlantic Board was unable to act on the increased offer from Validus and had failed to accept the increased offer.

On November 2, 2011, Mr. Noonan called Mr. Sapnar to discuss Validus' increased offer. Mr. Sapnar advised that the Transatlantic Board had failed to accept the increased offer.

Also on November 2, 2011, Validus delivered to the Transatlantic Board a letter containing the Validus Merger Offer. The Validus Merger Offer increased the amount of the one-time special dividend

contemplated to be paid as part of the Initial Validus Proposal to $11.00 in cash per Transatlantic Share and provided that this amount may be increased by the up to $2.00 per share Special Excess Dividend. The letter reads as follows:

November 2, 2011

Board of Directors of Transatlantic Holdings, Inc.
c/o Richard S. Press, Chairman
c/o Robert F. Orlich, Chief Executive Officer
c/o Michael Sapnar, President
80 Pine Street
New York, New York 10005

Re:
Compelling Increased Offer to Acquire Transatlantic Holdings, Inc.

Dear Sirs,

We are disappointed that you have failed to accept our increased offer which as of November 2, 2011 would have delivered total value of $55.35 per Transatlantic share based on Validus' closing share price on November 2, 2011, including an increase in the cash component of our offer of $3.00 per share and the ability for Transatlantic to pay up to an additional $2.00 per share. As a result, we have resumed our Consent Solicitation and Exchange Offer.

Background

It has been almost four months since Validus first announced its cash-and-stock offer to acquire Transatlantic on July 12th.

We had hoped that it would be possible to pursue a consensual transaction between Validus and Transatlantic after Transatlantic terminated its merger agreement with Allied World on September 16th following overwhelming Transatlantic stockholder opposition to that transaction. Following that time, Validus and Transatlantic entered into a confidentiality agreement on September 23rd, clearing the way for a mutual exchange of non-public information and negotiations to allow both Validus and Transatlantic to better understand each other's business and value, and Validus suspended its Consent Solicitation until November 1st so that the parties could focus their energies on reaching a consensual transaction.

Due Diligence and Increased Offer

We and our advisors have spent the past six weeks reviewing the information that Transatlantic was willing to share with us in an effort to better understand your business, operations and reserve adequacy and to determine whether we could provide greater value to your stockholders. This diligence process, performed in consultation with an internationally recognized actuarial firm, generally confirmed Validus' prior view of Transatlantic's business, operations and reserve levels.

Based on the additional work that we have done, Validus has determined that it will increase its offer. Our increased offer provides that Transatlantic stockholders would receive (1) 1.5564 Validus voting common shares pursuant to an exchange offer and merger, (2) $11.00 per share in cash pursuant to a pre-closing dividend from Transatlantic immediately prior to closing of the Exchange Offer and (3) up to an additional $2.00 cash per share in a pre-closing dividend. Our increased offer could be structured with Transatlantic's cooperation to be tax-free to Transatlantic stockholders with respect to the Validus shares they receive in the Exchange Offer and the Merger. As we have communicated to you and your advisors, we believe that the transaction can be consummated prior to year-end.

The aggregate amount available to pay the additional $2.00 cash pre-closing dividend to all Transatlantic stockholders would be reduced on a dollar-for-dollar basis for any funds used by Transatlantic for share repurchases made after October 31st. Therefore, if Transatlantic continues

share repurchases from selling stockholders it will result in a lower pre-closing cash dividend payable to all Transatlantic stockholders in a transaction with Validus.

We believe that our increased offer (including the full amount of the additional cash dividend of $2.00 per share), which represented a 6.0% premium to Transatlantic's closing share price on November 2nd, presents a compelling proposition for your stockholders and provides full and fair value for Transatlantic shares. In addition, this increased offer represented as of November 2nd:

- a 25.8% premium to Transatlantic's closing share price on June 10th, the last trading day prior to the announcement of Transatlantic's merger agreement with Allied World; and
- a 12.9% premium to Transatlantic's closing share price on July 12th, the last trading day prior to Validus' announcement of its intention to acquire Transatlantic.§

When we asked our financial advisors at Greenhill to initially share our view with respect to a potential increase to our initial offer, we did so with the sincere hope that it would be possible to work with Transatlantic on an accelerated basis to achieve a consensual transaction by the October 31st deadline set by our confidentiality agreement. Given the work that has been done on both sides over the past six weeks, Validus was extremely disappointed that the Transatlantic board has failed to accept our increased offer.

We believe that our increased offer is a far better value-enhancing alternative for Transatlantic stockholders than waiting for Transatlantic to pursue a theoretical transaction, a third party-sponsored run-off, a minority investment from a third party or pursuing a "go it alone" approach for the following reasons:

- We believe an alternative transaction will be subject to greater execution, financing and regulatory delay and risks than a transaction with Validus.
  - Validus commenced its Exchange Offer to acquire Transatlantic on July 25th and its registration statement was declared effective by the Securities and Exchange Commission on August 22nd. The exchange offer can be used as the first step in a two-step transaction that can be consummated prior to year-end.
  - Validus has obtained from J.P. Morgan Securities LLC a highly confident letter in connection with the arrangement of the financing required to pay the $11.00 per Transatlantic share pre-closing cash dividend.
  - Validus has obtained, or is well along in the process of obtaining, all insurance, antitrust and other regulatory approvals required to complete the acquisition of Transatlantic.

Based on these factors, we believe no other party can provide more transaction certainty or speed of execution to Transatlantic stockholders than Validus.

- Validus does not believe that there is any economic rationale under which a standalone Transatlantic is a better option for Transatlantic stockholders than a transaction with Validus. A "go it alone" Transatlantic appears to face significant hurdles and negative implications for Transatlantic stockholders:
  - *No premium:* A "go it alone" approach provides no premium for Transatlantic's stockholders, no cash for Transatlantic's stockholders and no catalyst for a trading multiple expansion for Transatlantic shares. In contrast, Validus' increased offer that was not accepted by the Transatlantic board represented as of November 2nd a 25.8% premium to Transatlantic's June 10th unaffected closing share price and provides Transatlantic stockholders with a significant equity interest in Validus, whose stock has consistently traded at a higher multiple than Transatlantic.

Inflexible structure: On a "go it alone" approach, Transatlantic's capital remains trapped within a tax-inefficient U.S. structure. In contrast, Validus' Bermuda domicile provides flexibility that permits Validus to shift capital as needed to maximize returns.

No insurance experience: Despite its attempts to obtain access to U.S. primary insurance business through Putnam Reinsurance Company, a "go it alone" Transatlantic provides its stockholders with no insurance experience or track record as a potential avenue for growth. Combining with Validus would provide access to a skilled management team that has produced a company with a top tier position at Lloyd's, with over $1 billion of gross premiums written and top quartile Lloyd's financial performance. Moreover, Talbot will give Transatlantic immediate access to the U.S. excess and surplus market.

No E.U. passport: A "go it alone" Transatlantic will continue to lack an E.U. passport a key deficiency previously identified by Transatlantic's management. Validus would provide Transatlantic with an E.U. passport through Validus Re Europe Limited, which can be funded as appropriate to support the combined company's expanding business.

Smaller size: A "go it alone" Transatlantic will remain the number 10 ranked property and casualty reinsurance company, while a combination with Validus would create a top six property and casualty reinsurance company worldwide, as well as a market leader in the U.S. and Bermuda.

No synergies: A "go it alone" Transatlantic cannot create stockholder value through realizing synergies, as compared to the significant opportunities to expand earnings, return on equity and book value growth through a combination with Validus.

Inferior capital management opportunities: Although a "go it alone" Transatlantic can continue to pursue its recently announced share repurchase program, subject to rating agency and other business constraints, it lacks the incremental excess capital that would be created by a combination with Validus. Moreover, active capital management is, and has been, a core element of Validus' strategy, and Validus has a senior management team skilled in managing capital for the benefit of all of its shareholders. A combination of Validus and Transatlantic would create approximately $1 billion of pre-synergy, pre-catastrophe earnings power which, together with excess capital created by the transaction, would be available for expanded share repurchase activity by the combined company. Accordingly, the Validus Holdings, Ltd. board of directors has approved, through open market purchases or otherwise, an increase in the current Validus share repurchase authorization to an aggregate of $1 billion, contingent upon the consummation of the acquisition of Transatlantic.**

Conclusion

Validus firmly believes that Transatlantic stockholders will find our increased offer compelling. Our preference remains to reach a consensual transaction with the Transatlantic board. However, because the Transatlantic board has failed to accept Validus' compelling increased offer, Validus will take its offer directly to Transatlantic's stockholders through its Exchange Offer and Consent Solicitation to replace the Transatlantic board.

Sincerely,

/s/ Edward J. Noonan

Edward J. Noonan
Chairman and Chief Executive Officer

Based on Transatlantic ($52.23) closing share price on November 2, 2011, and Validus ($27.21) closing share price on November 2, 2011.

Based on Transatlantic ($44.01) closing share price on June 10, 2011, and Validus ($27.21) closing share price on November 2, 2011.

§ Based on Transatlantic ($49.02) closing share price on July 12, 2011, and Validus ($27.21) closing share price on November 2, 2011.

** Validus expects the share repurchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, Validus' capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Validus Holdings, Ltd. board of directors at any time.

Additionally, on November 2, 2011, Validus delivered to Transatlantic a letter demanding that the Transatlantic Board set a record date in connection with Validus' consent solicitation. Further, on November 2, 2011, Validus delivered a letter demanding that Transatlantic deliver to Validus, among other things, a list of Transatlantic stockholders as of such date.

On November 3, 2011, Validus publicly disclosed the terms of the Validus Merger Offer in a press release and announced that it had amended the terms of the Validus Exchange Offer to include offer consideration of 1.5564 Validus Shares and $11.00 in cash (less applicable withholding taxes and without interest) per Transatlantic Share and to permit Transatlantic to pay up to a $2.00 per share Special Excess Dividend prior to the expiration time of the Validus Exchange Offer. Validus thereafter filed Amendment No. 20 to Validus' Schedule TO relating to the Validus Exchange Offer to reflect the revised terms of the Validus Exchange Offer.

Also on November 3, 2011, Validus announced that the Validus Board has approved, through open market purchases or otherwise, an increase in Validus' existing share repurchase authorization to a total of $1 billion, contingent upon the consummation of the acquisition of Transatlantic by Validus.

Source and Amount of Funds

Commitments

Validus has obtained commitments from J.P. Morgan Securities LLC, as lead arranger, and JPMorgan Chase Bank, N.A. to provide, subject to certain conditions, senior bank financing consisting of up to $350 million under a proposed new unsecured credit facility (the "Bridge Facility"), for financing a portion of the cash component of the consideration to be paid to Transatlantic stockholders in connection with the Validus Exchange Offer. These commitments supersede and replace the previously disclosed commitments from J.P. Morgan Securities LLC and JPMorgan Chase Bank, N.A. to provide up to $200 million of senior bank financing. The documentation governing the credit facility contemplated by these commitments has not been finalized, and accordingly, the actual terms may differ from the summary below. Validus plans to fund the remaining cash component of the consideration to be paid to Transatlantic stockholders in connection with the Validus Exchange Offer through borrowing under Validus' existing (i) $340 million Three-Year Unsecured Letter of Credit Facility Agreement, dated as of March 12, 2010, as amended (the "Existing Three-Year L/C Facility"), among Validus, Validus Reinsurance Ltd. ("Validus Re"), the subsidiary account parties from time to time party thereto, the lenders from time to time party thereto, Deutsche Bank Securities Inc., as syndication agent, and JPMorgan Chase Bank, N.A., as administrative agent and (ii) $60 million Three-Year Revolving Credit Facility Agreement, dated as of March 12, 2010, as amended, among Talbot Holdings Ltd., as borrower, Validus, the lenders from time to time party thereto and Lloyds TSB Bank plc, as administrative agent.

Interest; Unused Commitment Fees

Each loan made under the Bridge Facility will bear interest at an Adjusted LIBOR Rate or Alternate Base Rate (as contemplated by the commitment letter relating to the Bridge Facility) plus, in each case, the applicable margin described in the chart below. Interest periods on Adjusted LIBOR Rate-based loans may be one, two, three or six months, at Validus' option. In the case of Adjusted LIBOR Rate-based loans, interest will accrue on the basis of a 360-day year, and will be payable on the last day

of each relevant interest period and, for any interest period longer than 3 months, on each successive date 3 months after the first day of such interest period. Interest will accrue on Alternate Base Rate-based loans on the basis of a 365/366-day year (or 360-day year if based on the Federal Funds Rate or the Adjusted LIBOR Rate) and shall be payable quarterly in arrears. Unused loan commitments will be subject to an unused commitment fee, as described in the chart below.

Category	Index Ratings	Commitment Fee Rate	Eurodollar Spread	ABR Spread
Category 1	A-/A3 or better	0.125%	2.000%	1.000%
Category 2	BBB+/Baa1	0.150%	2.250%	1.250%
Category 3	BBB/Baa2	0.200%	2.500%	1.500%
Category 4	BBB-/Baa3	0.250%	2.750%	1.750%
Category 5	BB+/Ba1 or lower	0.325%	3.125%	2.125%

The Eurodollar Spreads and ABR Spreads set forth in the chart above will increase by an additional 0.25% on the date that is 90 days following the closing date of the Bridge Facility and every 90 days thereafter.

Additionally, Validus shall pay a duration fee for the ratable benefit of the lenders under the Bridge Facility on the dates set forth below, equal to the Applicable Duration Fee Percentage of the aggregate principal amount of loans outstanding as of such date:

Days after the closing date of the Bridge Facility	90 days	180 days	270 days
Applicable Duration Fee Percentage	0.50%	0.75%	1.00%

Conditions to Borrowing

Borrowing under the Bridge Facility will be subject to certain conditions. Set forth below is a description of the conditions precedent to borrowing under the Bridge Facility:

the negotiation, delivery and execution of definitive documentation with respect to the Bridge Facility consistent with the Existing Three-Year L/C Facility, and on terms consistent with, and containing only those conditions to borrowing expressly set forth in the commitment letter relating to the Bridge Facility;

(i) the Validus Exchange Offer shall have been consummated substantially concurrently with the initial funding of the Bridge Facility, in accordance with the terms described in the commitment letter relating to the Bridge Facility and in accordance with the terms of the definitive documents relating to the Validus Exchange Offer; (ii) without the prior written consent of the lead arranger (such consent not to be unreasonably withheld or delayed), there shall have been no amendment, modification, waiver or consent with respect to the conditions set forth in the documents relating to the Validus Exchange Offer entitled "Section 203 Condition" and "Rights Agreement Condition", in each case, as such conditions were in effect in the documents relating to the Validus Exchange Offer as of August 19, 2011; and (iii) after giving effect to the consummation of the Validus Exchange Offer on the closing date of the Bridge Facility, Validus shall own a majority of the then outstanding Transatlantic Shares on a fully diluted basis;

since December 31, 2010, there not having been any Combined Material Adverse Effect (as defined in the commitment letter relating to the Bridge Facility), other than any events, developments or occurrences (but not any future updates, developments or other changes in or to any such events, developments or occurrences) that have been disclosed prior to November 2, 2011 in any filing with the SEC on Form 10-K, Form 10-Q or Form 8-K of Validus or Transatlantic, as applicable;

as of the closing date of the Bridge Facility, no default or event of default shall have occurred and be continuing, or shall occur as a result of the consummation of the Validus Exchange Offer, the second-step merger and the financings thereof or the $2.00 per share Special Excess Dividend permitted to be paid prior to the expiration time of the Validus Exchange Offer, under

(i) the Existing Three-Year L/C Facility, the $500 million Five-Year Secured Letter of Credit Facility Agreement, dated as of March 12, 2007, as it may be amended, or, in each case any refinancing or replacement thereof or (ii) any other credit agreement of Validus, Transatlantic or any of their respective subsidiaries, or any refinancing or replacement thereof (other than, in the case of this clause (ii), any such agreements, refinancing or replacements with an aggregate outstanding principal amount (for all such agreements, refinancing and replacements) not in excess of $150,000,000);

accuracy of representations and warranties under the Bridge Facility (subject to materiality thresholds) (excluding any representation or warranty relating to Transatlantic or any of its subsidiaries or any of their respective businesses);

no default or event of default shall have occurred and be continuing at the time of, or after giving effect to the making of, the loans under the Bridge Facility;

on the closing date of the Bridge Facility, taking into account the Validus Exchange Offer and the second-step merger, Validus shall have (i) an unsecured long-term obligations rating of at least "Baa3" (with stable (or better) outlook from Moody's Investors Service, Inc. and (ii) long-term issuer credit rating of at least "BBB-" (with stable (or better) outlook) from Standard & Poor's Financial Services LLC, which ratings and outlooks shall have been reaffirmed within seven days prior to funding (to the extent the closing date of the Bridge Facility is more than 60 days after the original date of receipt of such ratings);

the lenders shall have received (i) audited consolidated financial statements of Validus for the three most recent fiscal years ended at least 90 days prior to the closing date of the Bridge Facility and (ii) unaudited consolidated financial statements of Validus for each interim quarterly period ended after the latest fiscal year referred to in clause (i) above and at least 45 days prior to the closing date of the Bridge Facility, and unaudited consolidated financial statements for the same period of the prior fiscal year;

the lenders shall have received a pro forma consolidated balance sheet of Validus as at the end of the most recent fiscal year ended at least 90 days prior to the closing date of the Bridge Facility and a pro forma statement of operations for each of (i) the most recent fiscal year of Validus ended at least 90 days prior to the closing date of the Bridge Facility and (ii) the most recent interim period of Validus ending at least 45 days prior to the closing date of the Bridge Facility, in each case adjusted to give effect to the consummation of the Validus Exchange Offer, the second-step merger and the financings contemplated in the commitment letter relating to the Bridge Facility as if such transactions had occurred on such date or on the first day of such period, as applicable. To the extent practicable, such pro forma financial statements shall be prepared in accordance with Regulation S-X, but it is acknowledged that to the extent Validus is limited as to information relating to Transatlantic and its subsidiaries, such preparation may not be practicable;

payment of all fees and expenses then due with respect to the Bridge Facility to the extent invoiced at least one business day prior to the closing date of the Bridge Facility;

the administrative agent shall have received such legal opinions, certificates (including a solvency certificate from the chief financial officer of Validus certifying the solvency of Validus and its subsidiaries on a consolidated basis, after giving effect to the Validus Exchange Offer, the second-step merger and the borrowings under the Bridge Facility), documents and other instruments and information (including PATRIOT Act and related compliance documentation and information), in each case, as are customary for transactions of this type as it may reasonably request; and

receipt by the administrative agent of a customary borrowing request from Validus.

Maturity

Validus expects that the contemplated Bridge Facility will mature on the earlier of (i) one year after the closing date of the Bridge Facility and (ii) March 12, 2013.

Prepayments and Repayments

The loans made under the Bridge Facility may be voluntarily prepaid without premium or penalty, subject to Validus' payment of breakage costs in connection with any Adjusted LIBOR Rate-based loans.

Subject to certain exceptions and thresholds, (i) the loans made under the Bridge Facility will be mandatorily prepaid and, (ii) after the execution of the commitment letter relating to the Bridge Facility, but prior to the closing date of the Bridge Facility, the commitments of the lenders under the Bridge Facility will be reduced, in each case, on a pro rata basis with (a) 100% of the net cash proceeds of any issuance of equity by Validus (other than any issuance of equity pursuant to the Validus Exchange Offer), (b) 100% of the net cash proceeds of any incurrence of indebtedness for borrowed money by Validus or any of its subsidiaries and (c) 100% of the net cash proceeds of any non-ordinary course sale or other disposition of assets by Validus of any of its subsidiaries.

Guarantee

All obligations of Validus and its subsidiaries under the Bridge Facility will, from and after the consummation of the second-step merger, be unconditionally guaranteed (the "Guarantee"), by Transatlantic so long as the provision of such Guarantee at such time is not prohibited by any material contract of Transatlantic or applicable law or regulation and would not result in material adverse tax consequences as reasonably determined by Validus and the administrative agent. In the event that (and for so long as) the Guarantee is not provided, the Bridge Facility will include the following additional covenants, in each case, consistent with the terms of the Existing Three-Year L/C Facility: (i) a minimum level of capital surplus at Validus Re equal to at least $2,451,837,960, (ii) a limitation on direct or indirect investments by Validus and its subsidiaries (other than Transatlantic and its subsidiaries) in Transatlantic and its subsidiaries and (iii) a covenant to provide quarterly financial statements of Validus Re.

Representations and Warranties; Covenants; Events of Default.

The representations and warranties contained in and the events of default under the Bridge Facility shall be substantially similar to those of the Existing Three-Year L/C Facility, as modified to reflect and permit the Validus Exchange Offer, the second-step merger and the other transactions contemplated by the Exchange Offer Documents (as defined below).

Validus Projected Financial Information

Validus' senior management does not as a matter of practice prepare or disclose public forecasts or projections as to Validus' future performance, earnings or other operating metrics beyond the current fiscal year, and Validus does not place much emphasis on projections for extended periods due to the unpredictability of the underlying assumptions and estimates.

However, at the request of Transatlantic's management, certain financial projections prepared by, or as directed by Validus' management have been provided by Validus to Transatlantic in connection with the Validus Merger Offer. Summaries of the foregoing financial projections (the "Financial Projections") are being provided herein solely because they were provided to Transatlantic to assist Transatlantic in reviewing the terms of the Validus Merger Offer. The inclusion of these Financial Projections in this Current Report on Form 8-K should not be regarded as an indication that Validus, Transatlantic, the board of directors of Validus or Transatlantic (or any committee thereof), or any other recipient of this information considered, or now considers, such Financial Projections to be a reliable prediction of future results, and they should not be relied on as such.

The Financial Projections reflect numerous judgments, estimates and assumptions with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to Validus' business, all of which are difficult to predict and many of which are beyond Validus' control. The Financial Projections are subjective in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the Financial Projections constitute forward-looking information and are subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such projections, including the various risks set forth in this Current Report on Form 8-K and Validus' periodic reports. See the subheading of this Item 8.01 titled "Cautionary Statement Regarding Forward-Looking Statements." There can be no assurance that the projected results will be realized or that actual results will not be significantly higher or lower than projected. The Financial Projections cover multiple years and such information by its nature becomes meaningfully less reliable with each successive year.

The Financial Projections do not take into account any circumstances or events occurring after the date they were prepared, and they do not give effect to the Validus Merger Offer or the Validus Exchange Offer or the effect of any failure of the transactions contemplated by the Validus Merger Offer or the Validus Exchange Offer to occur, and should not be viewed as accurate or continuing as of any other such date or in the event of any such failure.

The Financial Projections were prepared solely for use in connection with evaluating the Validus Merger Offer and not with a view toward public disclosure or toward complying with generally accepted accounting principles, the published guidelines of the Securities and Exchange Commission (the "SEC") regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither Validus' registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Financial Projections included below, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and deny any association with, the Financial Projections. The audit report included in the Validus 10-K refers exclusively to Validus' historical financial information. It does not extend to the Financial Projections and should not be read as such.

Validus has made publicly available its actual results of operations for the quarter ended September 30, 2011. Readers of this Current Report on Form 8-K are cautioned not to place undue reliance on the projections set forth below. No one has made or makes any representation to any stockholder regarding the information included in the Financial Projections.

The inclusion of the Financial Projections herein will not be deemed an admission or representation by Validus that they are viewed by Validus or any other party as material information of Validus. The Financial Projections are not included in this Current Report on Form 8-K in order to induce any holder of shares of Transatlantic common stock to deliver a written consent to Validus pursuant to the consent solicitation contemplated by the preliminary consent solicitation statement originally filed by Validus with the SEC on September 14, 2011 or to tender Transatlantic Shares pursuant to the Validus Exchange Offer. Validus does not intend to update or otherwise revise the Financial Projections to reflect circumstances existing since their preparation, to reflect the occurrence of unanticipated events even in the event that any or all of the underlying assumptions are shown to be in error, or to reflect changes in general economic or industry conditions.

The projections include the effects of capital management over the projection period (either by means of share repurchases or dividends).

Validus Summary Projections

($ in thousands, except per share data)

	2011E	2012E	2013E	2014E	2015E	2016E
Stockholders' Equity	$ 3,646,196	$ 3,660,569	$ 3,660,569	$ 3,660,569	$ 3,660,569	$ 3,660,569
Total Net Premiums Written	1,751,264	1,994,353	2,053,021	2,102,594	2,172,702	2,257,523
Net Income	77,521	440,544	466,341	472,414	474,605	492,627
Diluted EPS	$ 0.68	$ 4.33	$ 5.34	$ 6.20	$ 7.24	$ 8.90
Loss Ratio	67.8%	49.5%	49.7%	50.0%	50.5%	50.6%
Combined ratio	99.8%	80.1%	80.0%	80.2%	80.7%	80.7%

Selected Historical Consolidated Financial Data of Validus

Set forth below is certain selected historical consolidated financial data relating to Validus. The financial data has been derived from Validus' financial results for the nine months ended September 30, 2011, furnished as part of Validus' Current Report on Form 8-K filed with the SEC on October 27, 2011, (the "Validus Q3 Earnings Release"), and Validus' Annual Report on Form 10-K for the year ended December 31, 2010 (the "Validus 10-K"). Historical results are not necessarily indicative of the results that may be expected for the remainder of this fiscal year or any other future period. This financial data should be read in conjunction with the financial statements and the related notes and other financial information contained in the Validus Q3 Earnings Release and the Validus 10-K.

The following table sets forth summarized operational data for the periods ended December 31, 2010, 2009, 2008, 2007 and 2006 and September 30, 2011 and 2010:

	Nine Months Ended September 30,		Year Ended December 31,				
	2011	2010	2010	2009[12]	2008	2007	2006
	(Dollars in thousands, except share and per share amounts)						
Revenues							
Gross premiums written	$ 1,846,412	$ 1,731,835	$ 1,990,566	$ 1,621,241	$ 1,362,484	$ 988,637	$ 540,789
Reinsurance premiums ceded	(272,752)	(194,106)	(229,482)	(232,883)	(124,160)	(70,210)	(63,696)
Net premiums written	1,573,660	1,537,729	1,761,084	1,388,358	1,238,324	918,427	477,093
Change in unearned premiums	(259,863)	(209,417)	39	61,219	18,194	(60,348)	(170,579)
Net premiums earned	1,313,797	1,328,312	1,761,123	1,449,577	1,256,518	858,079	306,514
Gain on bargain purchase, net of expenses[13]				287,099			
Net investment income	84,216	103,141	134,103	118,773	139,528	112,324	58,021
Realized gain on repurchase of debentures				4,444	8,752		
Net realized gains (losses) on investments	23,177	46,897	32,498	(11,543)	(1,591)	1,608	(1,102)
Net unrealized (losses) gains on investments	(22,150)	88,641	45,952	84,796	(79,707)	12,364	
Other income	2,201	4,667	5,219	4,634	5,264	3,301	
Foreign exchange (losses) gains	(22,390)	(2,073)	1,351	(674)	(49,397)	6,696	2,157
Total revenues	1,378,851	1,569,585	1,980,246	1,937,106	1,279,367	994,372	365,590
Expenses							
Losses and loss expenses	909,572	832,361	987,586	523,757	772,154	283,993	91,323
Policy acquisition costs	232,931	217,376	292,899	262,966	234,951	134,277	36,072
General and administrative expenses[1]	145,244	154,779	209,290	185,568	123,948	100,765	38,354
Share compensation expenses	27,059	21,040	28,911	27,037	27,097	16,189	7,878
Finance expenses	41,297	42,084	55,870	44,130	57,318	51,754	8,789
Transaction expenses	13,583						
Fair value of warrants issued						2,893	77
Total expenses	1,369,686	1,267,640	1,574,556	1,043,458	1,215,468	589,871	182,493
Net income before taxes	9,165	301,945	405,690	893,648	63,899	404,501	183,097
Taxes	(1,050)	(2,068)	(3,126)	3,759	(10,788)	(1,505)	
Net income	8,115	299,877	402,564	897,407	53,111	402,996	183,097
Net income attributable to non controlling interest	(14,110)						
Net income (loss) available (attributable) to Validus	$ (5,995)	$ 299,877	$ 402,564	$ 897,407	$ 53,111	$ 402,996	$ 183,097
Comprehensive (loss) income							
Unrealized gains arising during the period[2]							(332)
Foreign currency translation adjustments	523	(94)	(604)	3,007	(7,809)	(49)	
Adjustment for reclassification of losses realized in income							1,102
Comprehensive (loss) income	$ (5,472)	$ 299,783	$ 401,960	$ 900,414	$ 45,302	$ 402,947	$ 183,867

	Nine Months Ended September 30,		Year Ended December 31,				
	2011	2010	2010	2009[12]	2008	2007	2006
	(Dollars in thousands, except share and per share amounts)						
Earnings per share[3]							
Weighted average number of common shares and common share equivalents outstanding							
Basic	98,430,686	119,414,906	116,018,364	93,697,194	74,677,903	65,068,093	58,477,130
Diluted	98,430,686	123,735,683	120,630,945	97,168,409	75,819,413	67,786,673	58,874,567
Basic (loss) earnings per share	$ (0.12)	$ 2.47	$ 3.41	$ 9.51	$ 0.62	$ 6.19	$ 3.13
Diluted (loss) earnings per share	$ (0.12)	$ 2.42	$ 3.34	$ 9.24	$ 0.61	$ 5.95	$ 3.11
Cash dividends per share	$ 0.75	0.66	$ 0.88	$ 0.80	$ 0.80	$	$
Selected financial ratios							
Losses and loss expenses ratio[4]	69.2%	62.7%	56.1%	36.1%	61.5%	33.1%	29.8%
Policy acquisition cost ratio[5]	17.7%	16.4%	16.6%	18.1%	18.7%	15.6%	11.8%
General and administrative expense ratio[6]	13.1%	13.2%	13.5%	14.7%	12.0%	13.3.%	15.1%
Expense ratio[7]	30.8%	29.6%	30.1%	32.8%	30.7%	28.9%	26.9%
Combined ratio[8]	100.0%	92.3%	86.2%	68.9%	92.2%	62.0%	56.7%
Return on average equity[9]	(0.2)%	10.6%	10.8%	31.8%	2.7%	26.9%	17.0%

The following table sets forth summarized balance sheet data as of December 31, 2010, 2009, 2008, 2007 and 2006 and September 30, 2011 and 2010:

	As of September 30,		As of December 31,				
	2011	2010	2010	2009	2008	2007	2006
	(Dollars in thousands, except share and per share amounts)						
Summary Balance Sheet Data:							
Investments at fair value	$ 5,341,043	$ 5,448,529	$ 5,118,859	$ 5,388,759	$ 2,831,537	$ 2,662,021	$ 1,376,387
Cash and cash equivalents	855,982	518,770	620,740	387,585	449,848	444,698	63,643
Total assets	8,000,740	7,503,242	7,060,878	7,019,140	4,322,480	4,144,224	1,646,423
Reserve for losses and loss expenses	2,565,912	2,020,845	2,035,973	1,622,134	1,305,303	926,117	77,363
Unearned premiums	1,058,593	955,236	728,516	724,104	539,450	557,344	178,824
Senior notes payable	246,955	246,847	246,874				
Debentures payable	289,800	289,800	289,800	289,800	304,300	350,000	150,000
Total liabilities	4,410,648	3,741,957	3,556,047	2,988,020	2,383,746	2,209,424	453,900
Total shareholders' equity	3,590,092	3,761,285	3,504,831	4,031,120	1,938,734	1,934,800	1,192,523
Book value per common share[10]	34.77	34.43	35.76	31.38	25.64	26.08	20.39
Diluted book value per common share[11]	32.23	32.02	32.98	29.68	23.78	24.00	19.73

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(1) General and administrative expenses for the years ended December 31, 2007 and 2006 include $4,000,000 and $1,000,000 respectively, related to Validus' advisory agreement with Aquiline Capital Partners, LLC (together with its related companies, "Aquiline"). Validus' advisory agreement with Aquiline terminated upon completion of Validus' initial public offering, in connection with which Validus recorded general and administrative expense of $3,000,000 in the year ended December 31, 2007.

(2) Validus adopted ASC 820 and ASC 825 as of January 1, 2007 and elected the fair value option on all securities previously accounted for as available-for-sale. Unrealized gains and losses on available-for-sale investments at December 31, 2006 of $875,000, previously included in accumulated other comprehensive income, were treated as a cumulative-effect adjustment as of January 1, 2007. The cumulative-effect adjustment transferred the balance of unrealized gains and losses from accumulated other comprehensive income to retained earnings and had no impact on the results of operations for the annual or interim periods beginning January 1, 2007. Validus' investments were accounted for as trading for the annual or interim periods beginning January 1, 2007 and as such all unrealized gains and losses are included in net income.

(3)

ASC 718 requires that any unrecognized stock-based compensation expense that will be recorded in future periods be included as proceeds for purposes of treasury stock repurchases, which is applied against the unvested restricted shares

balance. On March 1, 2007 Validus effected a 1.75 for 1 reverse stock split of our outstanding common shares. The stock split does not affect Validus' financial statements other than to the extent it decreases the number of outstanding shares and correspondingly increases per share information for all periods presented. The share consolidation has been reflected retroactively in this financial data.

(4) The losses and loss expense ratio is calculated by dividing losses and loss expenses by net premiums earned.

(5) The policy acquisition cost ratio is calculated by dividing policy acquisition costs by net premiums earned.

(6) The general and administrative expense ratio is calculated by dividing the sum of general and administrative expenses and share compensation expenses by net premiums earned. The general and administrative expense ratio for the year ended December 31, 2007 is calculated by dividing the total of general and administrative expenses plus share compensation expenses less the $3,000,000 termination fee payable to Aquiline by net premiums earned.

(7) The expense ratio is calculated by combining the policy acquisition cost ratio and the general and administrative expense ratio.

(8) The combined ratio is calculated by combining the losses and loss expense ratio, the policy acquisition cost ratio and the general and administrative expense ratio.

(9) Annualized return on average equity is calculated by dividing the net income for the period by the average shareholders' equity during the period. Annual average shareholders' equity is the average of the beginning, ending and intervening quarter-end shareholders' equity balances.

(10) Book value per common share is defined as total shareholders' equity available to Validus divided by the number of common shares outstanding as at the end of the period, giving no effect to dilutive securities.

(11) Diluted book value per common share is calculated based on total shareholders' equity plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise). Diluted book value per common share is a Non-GAAP financial measure as described under Item 7, "Management's Discussion and Analysis of Financial condition and Results of Operations Financial Measures," in the Validus Form 10-K.

(12) Operating results of IPC Holdings, Ltd. have been included from the September 2009 date of acquisition.

(13) The gain on bargain purchase, net of expenses is from the acquisition of IPC Holdings, Ltd. in September 2009 and is net of transaction expenses.

Selected Historical Consolidated Financial Data of Transatlantic

The following disclosure is taken from Transatlantic's financial results for the nine months ended September 30, 2011 that were furnished as part of Transatlantic's Current Report on Form 8-K filed with the SEC on October 26, 2011 (the "Transatlantic Q3 Earnings Release") and Transatlantic's Annual Report on Form 10-K for the year ended December 31, 2010 (the "Transatlantic 10-K").

Set forth below is certain selected historical consolidated financial data relating to Transatlantic. The financial data has been derived from the Transatlantic Q3 Earnings Release and the Transatlantic 10-K. Historical results are not necessarily indicative of the results that may be expected for any future period. This financial data should be read in conjunction with the financial statements and the related notes and other financial information contained in the Transatlantic Q3 Earnings Release and the Transatlantic 10-K.

The following table sets forth operational data as of September 30, 2011 and 2010, and as of December 31, 2010, 2009, 2008, 2007 and 2006:

Nine Months Ended September 30,		Years Ended December 31,				
011	2010	2010	2009	2008	2007	2006
(Dollars in thousands, except per share amounts and ratios)						
$ 2,996,144	$ 2,980,918	$ 3,881,693	$ 3,986,101	$ 4,108,092	$ 3,952,899	$ 3,633,440
$ 2,857,515	$ 2,924,638	$ 3,858,620	$ 4,039,082	$ 4,067,389	$ 3,902,669	$ 3,604,094
(2,460,499)	(2,070,923)	(2,681,774)	(2,679,171)	(2,907,227)	(2,638,033)	(2,462,666)
(715,397)	(709,879)	(932,820)	(927,918)	(980,626)	(980,121)	(903,666)
41,443	10,364	2,898	(12,406)	6,956	16,901	13,471
(122,878)	(133,015)	(177,624)	(158,181)	(131,555)	(115,760)	(102,339)
(399,816)	21,185	69,300	261,406	54,937	185,656	148,894
344,296	352,224	473,547	467,402	440,451	469,772	434,540
67,871	16,955	30,101	(70,641)	(435,541)	9,389	10,862
(1,179)	(115)	(115)	9,869	10,250		
(50,386)	(51,192)	(68,272)	(43,454)	(43,359)	(43,421)	(43,405)
(83,396)	(25,348)	(31,773)	(28,549)	(23,515)	(25,644)	(10,983)
(122,610)	313,709	472,788	596,033	3,223	595,752	539,908

573,478	$ 11,429	$ 8,957	$ 5,712	$	$ 285,868	
6			189,377	11,505	10,911	
57		4,744	108,895	6,562	1,877	418
93	(38,183)	1,173	48,870	27,834	12,637	2,135
51			3,561			
59			53,459			
40	(38,183)	5,917	977,640	57,330	34,382	8,265

76			361,801	63,151	21,361	3,842
63			166,074	10,907	1,071	3,727
79	(38,183)	5,917	1,505,515	131,388	56,814	15,834
58	(1,033,745)	1,098,468	823,357	(17,605)	(2,108)	(1,217
47	$ (1,071,928)	$ 1,104,385	$ 2,328,872	$ 113,783	$ 54,706	$ 14,617

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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 I, 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
Total current assets	1,817,406	(34,404)	52,631	1,147,356	37,095	38,400	7,719	3,584	565,025
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
Total Assets	$ 3,532,801	$ (1,019,251)	$ 1,080,342	$ 2,240,875	$ 111,426	$ 61,789	$ 13,256	$ 7,397	$ 1,036,967
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

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)

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)	

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 I, 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

	Total Company	Eliminations	United Auto Group, Inc.	Guarantor Subsidiaries	Non-Wholly Owned Guarantor Subsidiaries HBL LLC	UAG Connecticut I, 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)
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)

	Total Company	United Auto Group, Inc.	Guarantor Subsidiaries	Non-Wholly Owned Guarantor Subsidiaries: HBL LLC	UAG Connecticut I, LLC	UAG Mentor Acquisition LLC	UAG Central NJ, LLC	Non-Guarantor Subsidiaries
	(In thousands)							
Net cash from continuing operating activities	$ 103,123	$ (5,839)	$ 67,658	$ 3,476	$ 3,955	$ 747	$ (272)	$ 33,398
Investing Activities:								
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)
Financing Activities:								
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)						

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		
Cash and cash equivalents, end of period	$ 11,064	$ 6,397	$	$	$ 786	$ 539	$ 967	$ 2,375

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UNITED AUTO GROUP, INC.
Consolidating Condensed Statement of Cash Flows
(Unaudited)
Six Months Ended June 30, 2004
(Restated)

				Non-Wholly Owned Guarantor Subsidiaries			
	Total Company	United Auto Group, Inc.	Guarantor Subsidiaries	HBL LLC	UAG Connecticut I, LLC	UAG Mentor Acquisition LLC	Non-Guarantor Subsidiaries
	(In thousands)						
Net cash from continuing operating activities	$ 59,732	$ 235	$ 38,897	$ 4,619	$ (3,443)	$ 783	$ 18,641
Investing Activities:							
Purchase of equipment and improvements	(90,721)	(686)	(34,102)	(14,155)	(642)	(60)	(41,076)
Proceeds from sale leaseback transactions	13,374		13,374				
Proceeds from sale of investment	7,703						7,703
Dealership acquisitions, net	(3,715)		(2,191)				(1,524)
Net cash from continuing investing activities	(73,359)	(686)	(22,919)	(14,155)	(642)	(60)	(34,897)
Financing Activities:							
Net borrowings (repayments) of long-term debt	(107,020)	(118,609)	(17,466)	16,083			12,972
Net borrowings (repayments) of floor plan notes payable non-trade	917		7,670	(2,901)	5,192	(269)	(8,775)
Proceeds from issuance of common stock	127,343	127,343					
Distributions from (to) parent			(19,357)	(4,892)	(693)	(58)	25,000
Dividends	(8,734)	(8,734)					
	12,506		(29,153)	8,290	4,499	(327)	29,197

Net cash from continuing financing activities							
Net cash from discontinued operations	10,058		12,739				(2,681)
Net increase (decrease) in cash and cash equivalents	8,937	(451)	(436)	(1,246)	414	396	10,260
Cash and cash equivalents, beginning of period	13,238	6,571	436	1,246	644	85	4,256
Cash and cash equivalents, end of period	$ 22,175	$ 6,120	$	$	$ 1,058	$ 481	$ 14,516

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Item 2. ***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. See Forward Looking Statements.

Subsequent to the issuance of the Company s June 30, 2005 financial statements, the Company s management determined that certain information in the Consolidated Balance Sheets and 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 Balance Sheets, and related cash flows have been reclassified from operating activities to financing activities on the Consolidated 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 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. This Management s Discussion and Analysis of Financial Condition and Results of Operations has been updated for the effects of the restatement.

Overview

We are the second largest automotive retailer in the United States as measured by total revenues. As of June 30, 2005, we owned and operated 143 franchises in the United States and 96 franchises internationally, primarily in the United Kingdom. We offer a full range of vehicle brands. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher margin products, such as third party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products.

Second quarter results include a $1.9 million ($1.2 million after tax), or $0.03 per share, severance charge. Second quarter 2004 results include a $6.6 million ($4.0 million after tax), or $0.09 per share, gain resulting from the sale of an investment.

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 automobile leasing and other dealers. We generate finance and insurance revenues from sales of third-party extended service contracts and other third-party insurance policies, as well as from fees for facilitating the sale of third-party finance and lease contracts and certain other products. Service and parts revenues include fees paid for repair and maintenance services, the sale of replacement parts, the sale of aftermarket accessories and collision repairs.

We and Sirius Satellite Radio Inc. have agreed to jointly promote Sirius Satellite Radio service. Pursuant to the terms of our arrangement with Sirius Satellite Radio, our domestic dealerships endeavor to order a significant percentage of eligible vehicles with a factory installed Sirius radio. We and Sirius have also agreed to jointly market the Sirius service under a best efforts arrangement. Our costs relating to such marketing initiatives are expensed as incurred. As compensation for our efforts, we received ten million warrants to purchase Sirius common stock at $2.392 per share that vest ratably on an annual basis through January 2009. Two million of these warrants vested in the first quarter of 2005 and we exercised the warrants and sold the underlying stock we received upon exercise. The vesting of these warrants may accelerate based on us attaining specified subscription targets. We also received an additional ten million warrants to purchase Sirius common stock at $2.392 per share which vest upon our achieving specified volume targets pertaining to specified brands. We measure the fair value of the warrants on the date they vest as there are no significant disincentives for non-performance. Since we can reasonably estimate the number of warrants that will vest pursuant to the ratable vesting schedule, the estimated fair value (based on current fair value) of those warrants is being recognized ratably during each annual vesting period. Since we cannot reasonably estimate the number of warrants that will vest subject to the specified volume targets, the fair value of those warrants is being recognized upon vesting. The value of Sirius stock has been and is expected to be subject to significant fluctuations,

which may result in variability in the amount we earn under this arrangement. The warrants may be cancelled if certain performance targets are not met or upon the termination of our agreement. We may not be able to achieve any of the performance targets outlined in the warrants.

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 vehicle sales usually resulting in lower gross profit margins and our other revenues 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 personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance,

legal and general management personnel, 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 indebtedness incurred in connection with the acquisition of new and used vehicle inventories. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing.

We have acquired a number of dealerships each year since our inception. 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.

The future success of our business will likely be dependent on, among other things, our ability to consummate and integrate acquisitions, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealerships, and the success of our international operations. See Forward-Looking Statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing judgment. Such judgments influence the assets, liabilities, revenues and expenses in our financial statements. Management, on an ongoing basis, reviews these estimates and assumptions. Management may determine that modifications in assumptions and estimates are required, which may result in a material change in our results of operations or financial position.

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

Revenue Recognition

Vehicle, Parts and Service Sales

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is performed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of sales at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as earned.

Finance and Insurance Sales

We arrange financing for customers through various financial institutions and receive a commission from the lender equal to either the difference between the interest rates charged to customers and the interest rates set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we receive may be charged back to us based on the relevant terms of the contracts. The revenue we record relating to commissions is net of an estimate of the ultimate amount of chargebacks we will be required to pay. Such estimate of chargeback exposure is based on our historical chargeback experience arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products.

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Intangible Assets

Our principal intangible assets relate to our franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations consummated subsequent to July 1, 2001, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations. Intangible assets are amortized over their estimated useful lives. We believe the franchise value of our dealerships have an indefinite life based on the following facts:

Automotive retailing is a mature industry and is based on franchise agreements with the vehicle manufacturers;

There are no known changes or events that would alter the automotive retailing franchise environment;

Certain franchise agreement terms are indefinite;

Franchise agreements that have limited terms have historically been renewed without substantial cost; and

Our history shows that manufacturers have not terminated franchise agreements.

Impairment Testing

Intangible assets are reviewed for impairment on at least an annual basis. Franchise value impairment is assessed through a comparison of the net book value of our franchises with their estimated fair value. If the value of a franchise exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess. We also evaluate the remaining useful life of our franchises in connection with the annual impairment testing to determine whether events and circumstances continue to support an indefinite useful life. Goodwill impairment is assessed at the reporting unit level. If the carrying amount of the goodwill attributable to a reporting unit is determined to exceed its estimated fair value, an impairment loss is recognized in an amount equal to that excess. The fair value of the goodwill attributable to our reporting units is determined using a discounted cash flow approach which includes assumptions regarding revenue and profitability growth, residual values and the cost of capital. If future events and circumstances cause significant changes in the underlying assumptions which result in a reduction of our estimates of fair value, we may incur an impairment charge.

Investments

Investments include marketable securities and investments in businesses accounted for under the equity method. Marketable securities include investments in debt and equity securities. Marketable securities held by us are typically classified as available for sale and are stated at fair value in our balance sheet with unrealized gains and losses included in other comprehensive income, a separate component of stockholders equity. Declines in investment values that are deemed to be other than temporary would result in an impairment charge reducing the investments carrying value to fair value. A majority of our investments are in joint venture relationships that are more fully described in Joint Venture Relationships below. Such joint venture relationships are accounted for under the equity method, pursuant to which we record our proportionate share of the joint venture s income each period.

Self-Insurance

We retain risk relating to certain of our general liability insurance, workers compensation insurance and employee medical benefits in the United States. As a result, we are likely to be responsible for a majority of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and for certain exposures, we have pre-determined maximum exposure limits for certain insurance periods. The majority of losses, if any, above any pre-determined exposure limits are paid by third-party insurance carriers. Our estimate of future losses is prepared by management using our historical loss experience and industry based development factors.

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Income Taxes

Tax regulations may require items to be included in our tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses which are not deductible on our tax return, and some are timing differences, such as the timing of depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax effect in our financial statements. Deferred tax liabilities generally represent expenses recognized in our financial statements for which payment has been deferred or deductions taken on our tax return which have not yet been recognized as an expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, which replaces SFAS No. 123 Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (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 us 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 our consolidated financial position, results of operations or cash flows.

Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a Same Store basis. Dealership results are only included in same store comparisons when we have consolidated the entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2003, the results of the acquired entity would be included in quarterly same store comparisons beginning with the second quarter of 2004 and in annual same store comparisons beginning with 2005.

Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004 (dollars in millions, except per unit amounts)

Total Retail Data

			2005 vs. 2004	
	2005	**2004**	**Change**	**% Change**
Total retail unit sales	70,935	62,559	8,376	13.4%
Total same store retail unit sales	63,722	62,072	1,650	2.7%
Total retail sales revenue	$ 2,513.8	$ 2,100.2	$ 413.6	19.7%
Total same store retail sales revenue	$ 2,234.5	$ 2,084.8	$ 149.7	7.2%
Total retail gross profit	$ 405.6	$ 331.8	$ 73.8	22.2%
Total same store retail gross profit	$ 361.9	$ 329.1	$ 32.8	10.0%
Total retail gross margin	16.1%	15.8%	0.3%	1.9%
Total same store retail gross margin	16.2%	15.8%	0.4%	2.5%

Units

Retail data includes retail new vehicle, retail used vehicle, finance and insurance and service and parts transactions. Retail unit sales of vehicles increased by 8,376 units, or 13.4%, from 2004 to 2005. The increase is due to a 6,726 unit increase from net dealership acquisitions during the period, coupled with a 1,650 unit, or 2.7%, increase in same store retail unit sales. The same store increase is due to an increase in retail unit sales at our premium luxury and our volume foreign brands, offset by a decrease in used retail unit sales at our domestic brands.

Revenues

Retail sales revenue increased $413.6 million, or 19.7%, from 2004 to 2005. The increase is due to a $263.9 million increase from net dealership acquisitions during the period, coupled with a $149.7 million, or 7.2%, increase in same store revenues. The same store revenue increase is due to (1) an $845, or 2.7%, increase in average new vehicle revenue per unit, which increased revenue by $35.1 million, (2) a $1,505, or 6.2%, increase in average used vehicle revenue per unit, which increased revenue by $30.2 million, (3) a $93, or 11.6%, increase in average finance and insurance revenue per unit, which increased revenue by $5.8 million, (4) a $19.7 million, or 8.7%, increase in service and parts revenues, and (5) the 2.7% increase in retail unit sales which increased revenue by $58.9 million.

Gross Profit

Retail gross profit increased $73.8 million, or 22.2%, from 2004 to 2005. The increase is due to a $41.0 million increase from net dealership acquisitions during the period, coupled with a $32.8 million, or 10.0%, increase in same store retail gross profit. The same store retail gross profit increase is due to (1) a $103, or 3.8%, increase in average gross profit per new vehicle retailed, which increased retail gross profit by $4.3 million, (2) a $228, or 10.6%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $4.6 million, (3) the $93, or 11.6%, increase in average finance and insurance revenue per unit which increased retail gross profit by $5.8 million, (4) an $11.8 million, or 9.6%, increase in service and parts gross profit, and (5) the 2.7% increase in retail unit sales which increased retail gross profit by $6.3 million.

New Vehicle Data

			2005 vs. 2004	
	2005	**2004**	**Change**	**% Change**
New retail unit sales	48,590	41,745	6,845	16.4%
Same store new retail unit sales	43,635	41,491	2,144	5.2%
New retail sales revenue	$ 1,589.2	$ 1,316.9	$ 272.3	20.7%
Same store new retail sales revenue	$ 1,413.8	$ 1,309.2	$ 104.6	8.0%
New retail sales revenue per unit	$ 32,705	$ 31,547	$ 1,158	3.7%
Same store new retail sales revenue per unit	$ 32,400	$ 31,555	$ 845	2.7%
Gross profit new	$ 137.8	$ 112.5	$ 25.3	22.5%
Same store gross profit new	$ 122.0	$ 111.7	$ 10.3	9.2%
Average gross profit per new vehicle retailed	$ 2,835	$ 2,695	$ 140	5.2%
Same store average gross profit per new vehicle retailed	$ 2,795	$ 2,692	$ 103	3.8%
Gross margin % new	8.7%	8.5%	0.2%	2.4%
Same store gross margin % new	8.6%	8.5%	0.1%	1.2%

Units

Retail unit sales of new vehicles increased 6,845 units, or 16.4%, from 2004 to 2005. The increase is due to a 4,701 unit increase from net dealership acquisitions during the period, coupled with a 2,144 unit, or 5.2%,

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increase in same store retail unit sales. The same store increase is due primarily to an increase at our premium luxury and volume foreign brands.

Revenues

New vehicle retail sales revenue increased $272.3 million, or 20.7%, from 2004 to 2005. The increase is due to a $167.7 million increase from net dealership acquisitions during the period coupled with a $104.6 million, or 8.0%, increase in same store revenues. The same store revenue increase is due to the 5.2% increase in retail unit sales, which increased revenue by $69.5 million, and an $845, or 2.7%, increase in comparative average selling prices per unit, which increased revenue by $35.1 million.

Gross Profit

Retail gross profit from new vehicle sales increased $25.3 million, or 22.5%, from 2004 to 2005. The increase is due to a $15.0 million increase from net dealership acquisitions during the period, coupled with a $10.3 million, or 9.2%, increase in same store gross profit. The same store increase is due to the 5.2% increase in retail unit sales, which increased gross profit by $6.0 million, and a $103, or 3.8%, increase in average gross profit per vehicle retailed, which increased gross profit by $4.3 million.

Used Vehicle Data

			2005 vs. 2004	
	2005	2004	Change	% Change
Used retail unit sales	22,345	20,814	1,531	7.4 %
Same store used retail unit sales	20,087	20,581	(494)	(2.4)%
Used retail sales revenue	$ 582.9	$ 503.9	$ 79.0	15.7 %
Same store used retail sales revenue	$ 517.1	$ 498.8	$ 18.3	3.7 %
Used retail sales revenue per unit	$ 26,086	$ 24,210	$ 1,876	7.7 %
Same store used retail sales revenue per unit	$ 25,743	$ 24,238	$ 1,505	6.2 %
Gross profit used	$ 53.3	$ 44.7	$ 8.6	19.2 %
Same store gross profit used	$ 47.8	$ 44.3	$ 3.5	7.9 %
Average gross profit per used vehicle retailed	$ 2,386	$ 2,149	$ 237	11.0 %
Same store average gross profit per used vehicle retailed	$ 2,381	$ 2,153	$ 228	10.6 %
Gross margin % used	9.1%	8.9%	0.2%	2.2 %
Same store gross margin % used	9.2%	8.9%	0.3%	3.4 %

Units

Retail unit sales of used vehicles increased 1,531 units, or 7.4%, from 2004 to 2005. The increase is due to a 2,025 unit increase from net dealership acquisitions during the period, offset by a 494 unit, or 2.4%, decrease in same store used retail unit sales. We believe that the same store decrease was due principally to the continued challenging used vehicle market in domestic brands in the U.S. during the second quarter of 2005, based in part on the relative affordability of new vehicles due to continued incentive spending by certain manufacturers.

Revenues

Used vehicle retail sales revenue increased $79.0 million, or 15.7%, from 2004 to 2005. The increase is due to a $60.7 million increase from net dealership acquisitions during the period, and an $18.3 million, or 3.7%, increase in same store revenues. The same store revenue increase is due to a $1,505, or 6.2%, increase in comparative average selling prices per vehicle, which increased revenue by $30.2 million, offset by the 2.4% decrease in retail unit sales, which decreased revenue by $11.9 million.

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Gross Profit

Retail gross profit from used vehicle sales increased $8.6 million, or 19.2%, from 2004 to 2005. The increase is due to a $5.1 million increase from net dealership acquisitions during the period, coupled with a $3.5 million, or 7.9%, increase in same store gross profit. The increase in same store gross profit is due to a $228, or 10.6%, increase in average gross profit per used vehicle retailed, which increased gross profit by $4.6 million, offset by the 2.4% decrease in retail unit sales, which decreased gross profit by $1.1 million.

Finance and Insurance Data

			2005 vs. 2004	
	2005	**2004**	**Change**	**% Change**
Total retail unit sales	70,935	62,559	8,376	13.4%
Total same store retail unit sales	63,722	62,072	1,650	2.7%
Finance and insurance revenue	$ 61.0	$ 49.7	$ 11.3	22.7%
Same store finance and insurance revenue	$ 56.8	$ 49.6	$ 7.2	14.6%
Finance and insurance revenue per unit	$ 860	$ 795	$ 65	8.2%
Same store finance and insurance revenue per unit	$ 891	$ 798	$ 93	11.6%

Finance and insurance revenue increased $11.3 million, or 22.7%, from 2004 to 2005. The increase is due to a $4.1 million increase from net dealership acquisitions during the period, coupled with a $7.2 million, or 14.6%, increase in same store revenues. The same store revenue increase is due to a $93, or 11.6%, increase in comparative average finance and insurance revenue per unit, which increased revenue by $5.8 million, and the 2.7% increase in retail unit sales, which increased revenue by $1.4 million. Approximately $31 of the $65 increase in comparative average finance and insurance revenue per unit was due to our Sirius Satellite Radio promotion agreement.

Service and Parts Data

			2005 vs. 2004	
	2005	**2004**	**Change**	**% Change**
Service and parts revenue	$ 280.7	$ 229.6	$ 51.1	22.3%
Same store service and parts revenue	$ 246.8	$ 227.1	$ 19.7	8.7%
Gross profit	$ 153.5	$ 124.8	$ 28.7	23.0%
Same store gross profit	$ 135.3	$ 123.5	$ 11.8	9.6%
Gross margin	54.7%	54.4%	0.3%	0.6%
Same store gross margin	54.8%	54.4%	0.4%	0.7%

Revenues

Service and parts revenue increased $51.1 million, or 22.3%, from 2004 to 2005. The increase is due to a $31.4 million increase from net dealership acquisitions during the period, coupled with a $19.7 million, or 8.7%, increase in same store revenues. We believe that our service and parts business is being positively impacted by the growth in total retail unit sales at our dealerships in recent years, enhancements of maintenance programs and certified pre-owned programs offered by certain manufacturers, and capacity increases in our service and parts operations resulting from our facility improvement and expansion programs.

Gross Profit

Service and parts gross profit increased $28.7 million, or 23.0%, from 2004 to 2005. The increase is due to a $16.9 million increase from net dealership acquisitions during the period, coupled with an $11.8 million, or 9.6%, increase in same store gross profit. The same store gross profit increase is due to the $19.7 million, or

8.7%, increase in revenues, which increased gross profit by $10.8 million, and a 0.4% increase in gross margin, which increased gross profit by $1.0 million.

Selling, General and Administrative

Selling, general and administrative SG&A expenses increased $61.1 million, or 23.8%, from $257.0 million to $318.1 million. The aggregate increase is primarily due to a $32.4 million increase from net dealership acquisitions during the period coupled with a $28.7 million, or 11.3%, increase in same store SG&A. The increase in same store SG&A is due in large part to a net increase in variable selling expenses, including increases in variable compensation as a result of the 10.0% increase in retail gross profit over the prior year, coupled with increased rent and other property costs and $1.9 million of severance charges as we rationalized our cost structure in certain markets. SG&A expenses increased as a percentage of total revenue from 11.2% to 11.6% and increased as a percentage of gross profit from 77.3% to 78.4%.

Depreciation and Amortization

Depreciation and amortization increased $1.9 million, or 22.4%, from $8.5 million to $10.4 million. The increase is due to a $0.9 million increase from net dealership acquisitions during the period, coupled with a $1.0 million, or 11.8%, increase in same store depreciation and amortization. The same store increase is due in large part to our facility improvement and expansion program.

Floor Plan Interest Expense

Floor plan interest expense increased $3.7 million, or 35.1%, from $10.5 million to $14.2 million. The increase is due to a $1.2 million increase from net dealership acquisitions during the period coupled with a $2.4 million, or 23.4%, increase in same store floor plan interest expense. The same store increase is due primarily to an increase in our weighted average borrowing rate during 2005 compared to 2004.

Other Interest Expense

Other interest expense increased $2.2 million, or 22.4%, from $10.1 million to $12.3 million. The increase is due primarily to an increase in our weighted average borrowing rate during 2005 versus 2004, coupled with an increase in outstanding indebtedness in 2005 versus 2004.

Income Taxes

Income taxes decreased $1.8 million, or 8.9%, from $20.5 million to $18.7 million. The decrease is due to a decrease in our effective tax rate in 2005 versus 2004 from 38.8% to 36.9%, combined with a decrease in 2005 pre-tax income compared with 2004. The reduction in our effective rate is due principally to an increase in the relative proportion of our income from our U.K. operations, which is taxed at a lower rate.

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Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004 (dollars in millions, except per unit amounts)

Total Retail Data

			2005 vs. 2004	
	2005	2004	Change	% Change
Total retail unit sales	135,427	122,512	12,915	10.5 %
Total same store retail unit sales	120,763	121,040	(277)	(0.2)%
Total retail sales revenue	$ 4,795.4	$ 4,118.8	$ 676.6	16.4 %
Total same store retail sales revenue	$ 4,222.0	$ 4,065.9	$ 156.1	3.8 %
Total retail gross profit	$ 783.3	$ 656.0	$ 127.3	19.4 %
Total same store retail gross profit	$ 691.2	$ 646.8	$ 44.4	6.9 %
Total retail gross margin	16.3%	15.9%	0.4%	2.5 %
Total same store retail gross margin	16.4%	15.9%	0.5%	3.1 %

Units

Retail data includes retail new vehicle, retail used vehicle, finance and insurance and service and parts transactions. Retail unit sales of vehicles increased by 12,915 units, or 10.5%, from 2004 to 2005. The increase is due to a 13,192 unit increase from net dealership acquisitions during the period, offset by a 277 unit, or 0.2%, decrease in same store retail unit sales. The same store decrease is due to a decline in retail unit sales at our domestic brand and premium luxury dealerships, offset in part by growth in our volume foreign brands.

Revenues

Retail sales revenue increased $676.6 million, or 16.4%, from 2004 to 2005. The increase is due to a $520.5 million increase from net dealership acquisitions during the period, coupled with a $156.1 million, or 3.8%, increase in same store revenues. The same store revenue increase is due to (1) a $729, or 2.3%, increase in average new vehicle revenue per unit, which increased revenue by $58.4 million, (2) a $1,278, or 5.3%, increase in average used vehicle revenue per unit, which increased revenue by $50.5 million, (3) an $81, or 9.9%, increase in average finance and insurance revenue per unit, which increased revenue by $9.8 million, (4) a $34.6 million, or 7.7%, increase in service and parts revenues, and (5) a $2.8 million net increase resulting from new and used unit sales volume changes.

Gross Profit

Retail gross profit increased $127.3 million, or 19.4%, from 2004 to 2005. The increase is due to an $82.9 million increase from net dealership acquisitions during the period, coupled with a $44.4 million, or 6.9%, increase in same store retail gross profit. The same store retail gross profit increase is due to (1) a $76, or 2.8%, increase in average gross profit per new vehicle retailed, which increased retail gross profit by $6.1 million, (2) a $232, or 10.8%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $9.2 million, (3) an $81, or 9.9%, increase in average finance and insurance revenue per unit which increased retail gross profit by $9.8 million, and (4) a $19.4 million, or 8.0%, increase in service and parts gross profit, all offset by the net 0.2% decrease in retail unit sales, which decreased retail gross profit by $0.1 million.

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New Vehicle Data

			2005 vs. 2004	
	2005	**2004**	**Change**	**% Change**
New retail unit sales	91,337	80,924	10,413	12.9%
Same store new retail unit sales	81,274	80,080	1,194	1.5%
New retail sales revenue	$ 2,992.0	$ 2,561.2	$ 430.8	16.8%
Same store new retail sales revenue	$ 2,628.3	$ 2,531.3	$ 97.0	3.8%
New retail sales revenue per unit	$ 32,758	$ 31,650	$ 1,108	3.5%
Same store new retail sales revenue per unit	$ 32,339	$ 31,610	$ 729	2.3%
Gross profit new	$ 260.4	$ 219.6	$ 40.8	18.6%
Same store gross profit new	$ 225.9	$ 216.5	$ 9.4	4.3%
Average gross profit per new vehicle retailed	$ 2,851	$ 2,714	$ 137	5.0%
Same store average gross profit per new vehicle retailed	$ 2,780	$ 2,704	$ 76	2.8%
Gross margin % new	8.7%	8.6%	0.1%	1.2%
Same store gross margin % new	8.6%	8.6%	0.0%	0.0%

Units

Retail unit sales of new vehicles increased 10,413 units, or 12.9%, from 2004 to 2005. The increase is due to a 9,219 unit increase from net dealership acquisitions during the period, coupled with a 1,194 unit, or 1.5%, increase in same store retail unit sales. The same store increase is due to growth in our volume foreign brands, offset by a decline at our domestic brand dealerships.

Revenues

New vehicle retail sales revenue increased $430.8 million, or 16.8%, from 2004 to 2005. The increase is due to a $333.8 million increase from net dealership acquisitions during the period, coupled with a $97.0 million, or 3.8%, increase in same store revenues. The same store revenue increase is due to the 1.5% increase in retail unit sales, which increased revenue by $38.6 million, coupled with a $729, or 2.3%, increase in comparative average selling prices per unit, which increased revenue by $58.4 million.

Gross Profit

Retail gross profit from new vehicle sales increased $40.8 million, or 18.6%, from 2004 to 2005. The increase is due to a $31.4 million increase from net dealership acquisitions during the period, coupled with a $9.4 million, or 4.3%, increase in same store gross profit. The same store increase is due to the 1.5% increase in retail unit sales, which increased gross profit by $3.3 million, coupled with a $76, or 2.8%, increase in average gross profit per vehicle retailed, which increased gross profit by $6.1 million.

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Used Vehicle Data

			2005 vs. 2004	
	2005	2004	Change	% Change
Used retail unit sales	44,090	41,588	2,502	6.0 %
Same store used retail unit sales	39,489	40,960	(1,471)	(3.6)%
Used retail sales revenue	$ 1,132.8	$ 1,001.8	$ 131.0	13.1 %
Same store used retail sales revenue	$ 1,002.6	$ 987.6	$ 15.0	1.5 %
Used retail sales revenue per unit	$ 25,693	$ 24,088	$ 1,605	6.7 %
Same store used retail sales revenue per unit	$ 25,390	$ 24,112	$ 1,278	5.3 %
Gross profit used	$ 104.3	$ 88.9	$ 15.4	17.3 %
Same store gross profit used	$ 93.7	$ 87.7	$ 6.0	6.8 %
Average gross profit per used vehicle retailed	$ 2,367	$ 2,138	$ 229	10.7 %
Same store average gross profit per used vehicle retailed	$ 2,373	$ 2,141	$ 232	10.8 %
Gross margin % used	9.2%	8.9%	0.3%	3.4 %
Same store gross margin % used	9.3%	8.9%	0.4%	4.5 %

Units

Retail unit sales of used vehicles increased 2,502 units, or 6.0%, from 2004 to 2005. The increase is due to a 3,973 unit increase from net dealership acquisitions during the period, offset by a 1,471 unit, or 3.6%, decrease in same store used retail unit sales. We believe that the same store decrease was due in part to the continued challenging used vehicle market in domestic brands in the U.S. during the first six months of 2005, based in part on the relative affordability of new vehicles due to continued incentive spending by certain manufacturers.

Revenues

Used vehicle retail sales revenue increased $131.0 million, or 13.1%, from 2004 to 2005. The increase is due to a $116.0 million increase from net dealership acquisitions during the period, coupled with a $15.0 million, or 1.5%, increase in same store revenues. The same store revenue increase is due to the $1,278, or 5.3%, increase in comparative average selling prices per vehicle which increased revenue by $50.5 million, offset by the 3.6% decrease in retail unit sales, which decreased revenue by $35.5 million.

Gross Profit

Retail gross profit from used vehicle sales increased $15.4 million, or 17.3%, from 2004 to 2005. The increase is due to a $9.4 million increase from net dealership acquisitions during the period, coupled with a $6.0 million, or 6.8%, increase in same store gross profit. The increase in same store gross profit is due to a $232, or 10.8%, increase in average gross profit per vehicle retailed, which increased gross profit by $9.2 million, offset by the 3.6% decrease in retail unit sales, which decreased gross profit by $3.2 million.

Finance and Insurance Data

			2005 vs. 2004	
	2005	2004	Change	% Change
Total retail unit sales	135,427	122,512	12,915	10.5 %
Total same store retail unit sales	120,763	121,040	(277)	(0.2)%
Finance and insurance revenue	$ 117.3	$ 99.5	$ 17.8	17.9 %

Same store finance and insurance revenue	$	108.5	$	99.0	$	9.5	9.7 %
Finance and insurance revenue per unit	$	866	$	812	$	54	6.7 %
Same store finance and insurance revenue per unit	$	899	$	818	$	81	9.9 %

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Finance and insurance revenue increased $17.8 million, or 17.9%, from 2004 to 2005. The increase is due to an $8.3 million increase from net dealership acquisitions during the period, coupled with a $9.5 million, or 9.7%, increase in same store revenues. The same store revenue increase is due to the $81, or 9.9%, increase in comparative average finance and insurance revenue per unit, which increased revenue by $9.8 million, offset by the 0.2% decrease in retail unit sales, which decreased revenue by $0.3 million. Approximately $28 of the $54 increase in comparative average finance and insurance revenue per unit was due to our Sirius Satellite Radio promotion agreement.

Service and Parts Data

			2005 vs. 2004	
	2005	2004	Change	% Change
Service and parts revenue	$ 553.3	$ 456.3	$ 97.0	21.3%
Same store service and parts revenue	$ 482.6	$ 448.0	$ 34.6	7.7%
Gross profit	$ 301.2	$ 248.0	$ 53.2	21.5%
Same store gross profit	$ 263.1	$ 243.7	$ 19.4	8.0%
Gross margin	54.4%	54.3%	0.1%	0.2%
Same store gross margin	54.5%	54.4%	0.1%	0.2%

Revenues

Service and parts revenue increased $97.0 million, or 21.3%, from 2004 to 2005. The increase is due to a $62.4 million increase from net dealership acquisitions during the period, coupled with a $34.6 million, or 7.7%, increase in same store revenues. We believe that our service and parts business is being positively impacted by the growth in total retail unit sales at our dealerships in recent years, enhancements of maintenance programs and certified pre-owned programs offered by certain manufacturers and capacity increases in our service and parts operations resulting from our facility improvement and expansion programs.

Gross Profit

Service and parts gross profit increased $53.2 million, or 21.5%, from 2004 to 2005. The increase is due to a $33.8 million increase from net dealership acquisitions during the period, coupled with a $19.4 million, or 8.0%, increase in same store gross profit. The same store gross profit increase is due to the $34.6 million, or 7.7%, increase in revenues, which increased gross profit by $18.9 million, and a 0.1% increase in gross margin, which increased gross profit by $0.5 million.

Selling, General and Administrative

Selling, general and administrative SG&A expenses increased $107.1 million, or 20.7%, from $516.6 million to $623.7 million. The aggregate increase is primarily due to a $66.1 million increase from net dealership acquisitions during the period, coupled with a $41.0 million, or 8.1%, increase in same store SG&A. The increase in same store SG&A is due in large part to a net increase in variable selling expenses, including increases in variable compensation as a result of the 6.9% increase in retail gross profit over the prior year, coupled with increased rent and other property costs and $1.9 million of severance charges as we rationalized our cost structure in certain markets. SG&A expenses increased as a percentage of total revenue from 11.5% to 11.9%, and increased as a percentage of gross profit from 78.5% to 79.5%.

Depreciation and Amortization

Depreciation and amortization increased $3.9 million, or 23.2%, from $16.8 million to $20.7 million. The increase is due to a $1.7 million increase from net dealership acquisitions during the period coupled with a $2.2 million, or 13.3%, increase in same store depreciation and amortization. The same store increase is due in large part to our facility improvement and expansion program.

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Floor Plan Interest Expense

Floor plan interest expense increased $4.3 million, or 18.3%, from $23.2 million to $27.5 million. The increase is due to a $2.7 million increase from net dealership acquisitions during the period, coupled with a $1.6 million, or 7.1%, increase in same store floor plan interest expense. The same store increase is primarily due to an increase in our weighted average borrowing rate during 2005 compared to 2004.

Other Interest Expense

Other interest expense increased $3.0 million, or 14.3%, from $20.8 million to $23.8 million. The increase is due primarily to an increase in our weighted average borrowing rate during 2005 versus 2004, coupled with an increase in outstanding indebtedness in 2005 versus 2004.

Income Taxes

Income taxes decreased $1.1 million, or 3.3%, from $33.8 million to $32.7 million. The decrease is due to a decrease in our effective tax rate in 2005 versus 2004 from 38.8% to 36.9%, offset by an increase in 2005 pre-tax income compared with 2004. The reduction in our effective rate is due principally to an increase in the relative proportion of our income from our U.K. operations, which are taxed at a lower rate.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new dealerships, the improvement and expansion of existing facilities, the construction of new facilities and dividends. Historically, these cash requirements have been met through cash flow from operations, borrowings under our credit agreements and floor plan arrangements, the issuance of debt securities, sale-leaseback transactions and the issuance of equity securities. As of June 30, 2005, we had working capital of $118.2 million, including $11.1 million of cash, available to fund the Company s operations and capital commitments. In addition, we had $266.5 million and £74.0 million ($133.6 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, which are each discussed below.

We paid a cash dividend on our common stock on June 1, 2005 of eleven cents per share. On July 19, 2005, we declared a cash dividend on our common stock of eleven cents per share payable on September 1, 2005 to shareholders of record on August 10, 2005. Future quarterly or other cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions on any then existing indebtedness and other factors considered relevant by our Board of Directors.

We have grown primarily through the acquisition of automotive dealerships. We believe that our cash flow from operating activities and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our 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 agreements to finance significant additional acquisitions. In certain circumstances, a public equity offering could require the prior approval of certain automobile manufacturers. In connection with such potential significant acquisitions, 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.

Inventory Finance

We finance substantially all of our new and a portion of our 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, we are generally not required to make loan principal repayments prior to the sale of the financed vehicles. We typically make 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 our automotive dealership subsidiaries. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in prime or LIBOR borrowing rates. Total outstanding borrowings under floor plan arrangements amounted to $1,168.5 million as of June 30, 2005, of which $309.0 million related to inventory held by our U.K. subsidiaries.

U.S. Credit Agreement

Our credit agreement with DaimlerChrysler Services North America LLC and Toyota Motor Credit Corporation, as amended effective October 1, 2004 (the U.S. Credit Agreement) provides for up to $600.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, and for an additional $50.0 million 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 our domestic subsidiaries 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. We are 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 acceleration of the amounts owed. As of June 30, 2005, we were in compliance with all covenants under the U.S. Credit Agreement, and management believes that we 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. See Forward Looking Statements.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our 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 $299.0 million and $34.5 million, respectively.

U.K. Credit Agreement

Our 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 £65.0 million 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 £15.0 million. Term loan capacity under the U.K. Credit Agreement was originally £10.0 million, which is reduced by £2.0 million every six months. As of June 30, 2005, term loan capacity under the U.K. Credit Agreement amounted to £4.0 million. The remaining £55.0 million 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, we were in compliance with all covenants under the U.K. Credit Agreement, and management believes that we 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. See Forward Looking Statements.

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

We have outstanding $300.0 million 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 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. 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. As of June 30, 2005 we were in compliance with all covenants and there were no events of default.

Interest Rate Swaps

We are party to an interest rate swap agreement through January 2008 pursuant to which a notional $200.0 million of our 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, we expect approximately $2.1 million of interest associated with the swap to be reclassified as a charge to income over the next twelve months.

Other Financing Arrangements

In the past, we have entered into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and leasehold improvements to a third-party and agree to lease those assets back for a certain period of time. We believe we will continue to utilize these types of transactions in the future. Such sales generate proceeds which vary from period to period.

Cash Flows

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. Historically, we reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity. We have restated and reclassified 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 reclassified related cash flows as a financing activity to comply with the guidance under Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. As a result, the Consolidated Statement of Cash Flows has been restated, resulting in a $48.3 million increase in cash flows from continuing operating activities and a corresponding decrease in cash flows from continuing financing activities for the six months ended June 30, 2005 and a $0.9 million decrease in cash flows from continuing operating activities and a corresponding increase in cash flows from continuing financing activities for the six months ended June 30, 2005.

Cash and cash equivalents decreased by $4.1 million and increased by $8.9 million during the six months ended June 30, 2005 and 2004, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by operating activities was $103.1 million and $59.7 million during the six months ended June 30, 2005 and 2004, respectively. Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. In 2005, operating cash flows include $10.5 million as a result of the exercise of two million warrants of Sirius Satellite Radio and sale of the underlying stock. We acquired these shares by exercising two million warrants earned throughout 2004 under our agreement with Sirius Satellite Radio.

We believe that changes in aggregate floor plan liabilities are directly linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. Consequently, we have provided below a reconciliation of cash flow from operating activities as reported in our Condensed Consolidated Statement of Cash Flows as if all changes in vehicle floor plan were classified as an operating activity.

	Three Months Ended June 30,	
	2005	2004
Net cash from continuing operating activities as reported	$ 103,123	$ 59,732
Floor plan notes payable non-trade as reported	(48,307)	917
Net cash from continuing operating activities including all floor plan notes payable	$ 54,816	$ 60,649

Cash Flows from Continuing Investing Activities

Cash used in investing activities was $96.3 million and $73.4 million during the six months ended June 30, 2005 and 2004, respectively. Cash flows from investing activities consist primarily of cash used for capital expenditures, proceeds from sale-leaseback transactions and net expenditures for dealership acquisitions. Capital expenditures were $101.4 million and $90.7 million during the six months ended June 30, 2005 and 2004, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. Proceeds from sale-leaseback transactions were $53.3 million and $13.4 million during the six months ended June 30, 2005 and 2004, respectively. Cash used in business acquisitions, net of cash acquired, was $48.2 million and $3.7 million during the six months ended June 30, 2005 and 2004, respectively. During the six months ended June 30, 2004, cash from investing activities also included $7.7 million of proceeds received from the sale of an investment.

Cash Flows from Continuing Financing Activities

Cash used in financing activities was $26.9 million during the six months ended June 30, 2005 and cash provided by financing activities was $12.5 million during the six months ended June 30, 2004. Cash flows from financing activities include net borrowings or repayments of long-term debt, net borrowings or repayments of floor plan notes payable non-trade, proceeds from the issuance of common stock, including proceeds from the exercise of stock options, and dividends. We had net borrowings of long-term debt of $29.4 million during the six months ended June 30, 2005 and net repayments of long-term debt of $107.0 million during the six months ended June 30, 2004. We had net repayments of floor plan notes payable non-trade of $48.3 million during the six months ended June 30, 2005 and net borrowing of $0.9 million of floor plan notes payable non-trade during the six months ended June 30, 2004. During the six months ended June 30, 2005 and 2004 we received proceeds of $2.2 million and $127.3 million, respectively from the issuance of common stock. During the six months ended June 30, 2005 and 2004, we paid $10.2 million and $8.7 million, respectively, of cash dividends to our stockholders.

Commitments

In connection with an acquisition of dealerships completed in October 2000, we agreed to make a contingent payment in cash to the extent 841,476 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

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$12.00 per share at the time of sale. We will be forever released from this guarantee in the event the average daily closing price of our common stock for any 90 day period subsequent to the fifth anniversary of the transaction exceeds $12.00 per share. In the event we are 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. We have further granted the seller a put option pursuant to which we may be required to repurchase a maximum of 108,333 shares for $12.00 per share on each of the first five anniversary dates of the transaction. To date, no payments have been made by us relating to the put option. As of June 30, 2005, the maximum future cash payment we may be required to make in connection with the put option is $1.3 million.

We have 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, we are required to repurchase our 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, we have entered into a joint venture agreement with respect to our Honda of Mentor dealership in Ohio. We are required to repurchase our partners interest in this joint venture in July 2008. We expect this payment to be approximately $2.7 million.

Related Party Transactions

Stockholders Agreement

Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 41% of our outstanding stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui) own approximately 15% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for one director who is a representative of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2014, upon the mutual consent of the parties or when either party no longer owns any of our common stock.

Mitsui Transaction

On March 26, 2004, we sold an aggregate of 4,050,000 shares of common stock to Mitsui for $119.4 million. Proceeds from the sale were used for general corporate purposes, which included reducing outstanding indebtedness under our credit agreements.

Other Related Party Interests

James A. Hislop, one of our directors, is the President, Chief Executive Officer and a managing member of Penske Capital Partners, a director of Penske Corporation and a managing director of Transportation Resource Partners, an organization which undertakes investments in transportation related industries. Roger S. Penske also is a managing member of Penske Capital Partners and Transportation Resource Partners. Richard J. Peters, one of our directors, is a director of Penske Corporation and a managing director of Transportation Resource Partners. Eustace W. Mita and Lucio A. Noto (two of our directors) are investors in Transportation Resource Partners. One of our board members, Mr. Hiroshi Ishikawa, serves as our Executive Vice President International Business Development and serves in a similar capacity for Penske Corporation. Robert H. Kurnick, Jr., our Executive Vice President and General Counsel, is also the President and a director of Penske Corporation and Paul F. Walters, our Executive Vice President Human Resources serves in a similar human resources capacity for Penske Corporation.

Other Transactions

We are currently a tenant under a number of non-cancelable lease agreements with Automotive Group Realty, LLC and its subsidiaries (together AGR), wholly-owned subsidiaries of Penske Corporation. From

time to time we may sell AGR real property and improvements which are subsequently leased by AGR to us. The sale of each parcel of property is valued at a price which is independently confirmed by a third party appraiser. During the six months ended June 30, 2005 we sold $3.3 million of property to AGR. There were no gains or losses associated with such sales.

We sometimes pay and/or receive fees to/from Penske Corporation and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others behalf. Payments made relating to services rendered reflect the provider s cost or an amount mutually agreed upon by both parties, which we believe represent terms at least as favorable as those that could be obtained from an unaffiliated third party negotiated on an arm s length basis.

We are currently a tenant under a number of non-cancelable lease agreements with Samuel X. DiFeo and members of his family. Mr. DiFeo is our President and Chief Operating Officer. We believe that the terms of these transactions are at least as favorable as those that could be obtained from an unaffiliated third party negotiated on an arm s length basis.

In February 2005, we acquired a 7% interest in a mobile vehicle washing company in exchange for $2.4 million. Transportation Resource Partners, an organization discussed above under Other Related Party Interests, simultaneously acquired a controlling interest in this company on the same financial terms as our investment. On April 29, 2005, we acquired a 23% interest in a provider of outsourced vehicle management solutions in exchange for $4.5 million. Transportation Resource Partners simultaneously acquired a controlling interest in this company on the same financial terms as our investment. We and several other investors, including Transportation Resource Partners, entered into a stockholders agreement relating to this investment which, among other things, provides us with specified management rights and rights to purchase additional shares and restricts our ability to transfer shares. We have also entered into a management agreement which provides that we and other investors (or their affiliates) are to be provided ongoing management fees.

We have entered into joint ventures with certain related parties as more fully discussed below.

Joint Venture Relationships

From time to time we enter into joint venture relationships in the ordinary course of business, pursuant to which we operate dealerships together with other investors. We may also provide these subsidiaries with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of June 30, 2005 our joint venture relationships are as follows:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Mercedes-Benz, Audi, Porsche	92.90%(A)
Edison, New Jersey	Ferrari, Maserati	70.00%
Tysons Corner, Virginia	Mercedes-Benz, Maybach, Audi, Porsche, Aston Martin,	90.00%(B)
Las Vegas, Nevada	Ferrari, Maserati	50.00%
Mentor, Ohio	Honda	70.00%
Munich, Germany	BMW	50.00%
Frankfurt, Germany	Lexus, Toyota	50.00%
Mexico	Toyota	48.70%
Mexico	Toyota	45.00%

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor), owns a 7.1% interest in this joint venture as of June 30, 2005 which entitles the Investor to 20% of the operating profits of the joint venture. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) Roger S. Penske, Jr. owns a 10% interest in this joint venture.

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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 U.S. 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 severe winters. The greatest U.S. seasonality exists at the dealerships we operate in northeastern and upper mid-western states, for which the second and third quarters are the strongest with respect to vehicle-related sales. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K. The service and parts business at all dealerships experiences relatively modest seasonal fluctuations.

Effects of Inflation

We believe that inflation rates 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.

Forward Looking Statements

This quarterly report on Form 10-Q/A 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, plan, estimate, predict, potential, forecast, continue or variations of such t of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial performance;
- future acquisitions;
- future capital expenditures;
- our ability to obtain cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate dealerships;
- our ability to access the remaining availability under our credit agreements and other capital;
- our liquidity;
- interest rates;

trends affecting our future financial condition or results of operations; and

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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 our filings with the Securities and Exchange Commission. Important factors that could cause actual results to differ materially from our expectations include the following:

the ability of automobile manufacturers to exercise significant control over our operations, since 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 or successfully integrate acquisitions, we may not be able to achieve desired results from our acquisition strategy;

we may not be able to satisfy our capital requirements for making acquisitions, dealership renovation projects or 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 may 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 interest rates, consumer confidence, fuel prices and credit availability;

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

if we lose key personnel, especially our Chief Executive Officer, 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;

because most customers finance the cost of purchasing a vehicle, increased interest rates may adversely affect our vehicle sales;

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 may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements;

our foreign dealerships are not afforded the same legal franchise protections as those in the U.S. so we could be subject to additional competition from other local dealerships in those markets.;

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

our dealership operations may be affected by severe weather or other periodic business interruptions;

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

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

our level of indebtedness may limit our ability to obtain financing for acquisitions and may 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;

our overseas operations subject our profitability to fluctuations relating to changes in foreign currency valuations; and

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

Furthermore,

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

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

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.

Item 3. ***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 U.S. and U.K. credit agreements bear interest at a variable rate based on a margin over LIBOR, as defined. Based on the amount outstanding as of June 30, 2005, a 100 basis point change in interest rates would result in an approximate $3.0 million change to our annual interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over LIBOR or prime rates. We continually evaluate our exposure to interest rate fluctuations and follow 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 mitigate the effect of interest rate fluctuations on our earnings and cash flows. We are currently party to a swap agreement pursuant to which a notional $200.0 million of our floating rate floor plan debt was exchanged for 5.86% fixed rate debt through January 2008. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments, a 100 basis point change in interest rates would result in an approximate $10.5 million change to our annual interest expense.

Interest rate fluctuations affect the fair market value of our swaps and fixed rate debt, including the Notes and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

Foreign Currency Exchange Rates. As of June 30, 2005, we have invested in franchised dealership operations in the U.K., Germany, and Mexico. 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 U.K., the Company s foreign operations are not significant. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and

cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate $158.3 million change to our revenues for the six months ended June 30, 2005.

In common with other automotive retailers, we purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase the majority 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.

Item 4. *Controls and Procedures*

We maintain disclosure controls and procedures designed to ensure that both non-financial and financial information required to be disclosed in our periodic reports is recorded, processed, summarized and reported in a timely fashion. Based on the second quarter evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of June 30, 2005. In addition, we maintain internal controls designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal controls over financial reporting that occurred during our second quarter of 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In addition, we have considered the restatement of our Consolidated Condensed Balance Sheets and Consolidated Condensed Statements of Cash Flows to comply with the guidance under Statement of Financial Accounting Standards No. 95, Statement of Cash Flows and have concluded that such restatement does not represent a material weakness in our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, we are 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, we are not a party to any legal proceedings, including class action lawsuits to which we are a party, that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our 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 our results of operations, financial condition or cash flows.

Item 4. *Submission of Matters to a Vote of Security Holders*

(a) The Company s Annual Meeting of Stockholders (the Annual Meeting) was held on April 14, 2005.

(b) Proxies for the Annual Meeting were solicited pursuant to regulation 14A under the Securities Exchange Act of 1934, as amended. There were no solicitations in opposition to management s nominees listed in the proxy statement. Each of the twelve nominees listed in the proxy statement was elected.

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(c) The following matter was voted upon at the Annual Meeting:

1. The election of twelve directors. The results of the vote follow:

Nominee	For	Withheld
John Barr	43,162,803	373,107
Michael R. Eisenson	42,977,235	558,675
James A. Hislop	39,230,141	4,305,769
Hiroshi Ishikawa	39,210,989	4,324,921
William Lovejoy	43,248,331	287,579
Kimberly J. McWaters	43,311,993	223,917
Eustace W. Mita	38,753,438	4,782,472
Lucio A. Noto	39,161,844	4,374,066
Roger S. Penske	39,133,344	4,402,566
Richard J. Peters	39,171,224	4,364,686
Ronald G. Steinhart	43,192,562	343,348
H. Brian Thompson	43,310,693	225,217

Item 6. *Exhibits*

4.1 Fourth Supplemental Indenture dated as of May 17, 2005 among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and J.P. Morgan Trust Company, N.A. (as successor in interest to Bank One Trust Company, N.A.), as Trustee (incorporated by reference to our originally filed Form 10-Q on August 8, 2005).

31 Rule 13a-14(a)/15(d)-14(a) Certifications.

32 Section 1350 Certifications.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED AUTO GROUP, INC.

Date: January 23, 2006

By: /s/ Roger S. Penske

Roger S. Penske
Chief Executive Officer

Date: January 23, 2006

By: /s/ James R. Davidson

James R. Davidson
Executive Vice President Finance
(Chief Accounting Officer)

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EXHIBIT INDEX

Exhibits Number:	Description
4.1	Fourth Supplemental Indenture dated as of May 17, 2005 among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and J.P. Morgan Trust Company, N.A. (as successor in interest to Bank One Trust Company, N.A.), as Trustee (incorporated by reference to our originally filed Form 10-Q on August 8, 2005).
31	Rule 13a-14(a)/15(d)-14(a) Certifications.
32	Section 1350 Certifications.