UNITED AUTO GROUP INC
Form DEF 14A
March 23, 2006

Table of Contents

OMB APPROVAL

OMB Number:	3235-0059
Expires:	January 31, 2008
Estimated average burden hours per response	14

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

United Auto Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

SEC 1913 (11-01)	**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Table of Contents

To Our Stockholders:

We are pleased to invite you to attend the annual meeting of stockholders of United Auto Group, Inc. to be held at 9:00 a.m., Pacific Daylight Time on May 3, 2006, at Wynn Las Vegas, the site of Penske Wynn Ferrari Maserati, one of our world-class automotive dealerships. Wynn Las Vegas is located at 3131 Las Vegas Boulevard South, Las Vegas, Nevada.

The accompanying Notice of Annual Meeting and Proxy Statement describe the specific matters to be voted upon at the meeting. The annual meeting provides an excellent opportunity for stockholders to become better acquainted with UnitedAuto and its directors and officers, and I hope that you will attend.

Whether or not you plan to attend, we ask that you cast your vote as soon as possible. This will assure your shares are represented at the meeting. Thank you for your continued support of UnitedAuto.

Sincerely,

Roger S. Penske
Chairman of the Board and
Chief Executive Officer

Bloomfield Hills, Michigan
March 23, 2006

Table of Contents

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
May 3, 2006

We will hold our annual meeting of stockholders at 9:00 a.m., Pacific Daylight Time on May 3, 2006, at Wynn Las Vegas, the site of Penske Wynn Ferrari Maserati, one of our world-class automotive dealerships. Wynn Las Vegas is located at 3131 Las Vegas Boulevard South, Las Vegas, Nevada. The agenda items for approval at the meeting consist of:

(1) the election of twelve directors to serve until the next annual meeting of stockholders, or until their successors are duly elected and qualified;

(2) the amendment of our certificate of incorporation to increase the number of authorized shares of voting common stock from 80,000,000 to 240,000,000; and

(3) the transaction of such other business as may properly come before the meeting.

Stockholders of record as of March 20, 2006 can vote at the annual meeting and any postponements or adjournments of the annual meeting. We will make available for inspection a list of holders of our common stock as of the record date during business hours from April 17, 2006 through May 3, 2006 at our principal executive offices, located at 2555 Telegraph Road, Bloomfield Hills, Michigan 48302. This proxy statement and the enclosed proxy card are first being distributed on or about March 23, 2006.

Your vote is very important. Please complete, date and sign the enclosed proxy card and return it promptly in the enclosed postage prepaid envelope or otherwise cast your vote. Your prompt voting will ensure a quorum. You may revoke your proxy and vote personally on all matters brought before the annual meeting.

By Order of the Board of Directors,

Shane M. Spradlin
Vice President and Secretary

Bloomfield Hills, Michigan
March 23, 2006

TABLE OF CONTENTS

Table of Contents

ABOUT THE MEETING

Q. What am I voting on?

A. Proposal 1: Election of twelve directors to serve until the next annual meeting of stockholders, or until their successors are duly elected and qualified.

A. Proposal 2: Amendment of our certificate of incorporation to increase the number of authorized shares of voting common stock from 80,000,000 to 240,000,000.

Q. Who can vote?

A. Common stockholders of UnitedAuto as of the close of business on the record date, March 20, 2006, can vote at the annual meeting. Each share of our common stock gets one vote. Votes may not be cumulated. As of March 20, 2006, there were 47,001,428 shares of our common stock outstanding.

Q. How do I vote before the meeting?

A. By completing, signing and returning the enclosed proxy card.

Q. May I vote at the meeting?

A. You may vote at the meeting if you attend in person. If you hold your shares through an account with a bank or broker, you must obtain a legal proxy from the bank or broker in order to vote at the meeting. Even if you plan to attend the meeting, we encourage you to vote your shares by proxy.

Q. Can I change my mind after I vote?

A. You may change your vote at any time before the polls close at the meeting by (1) signing another proxy card with a later date and returning it to us prior to the meeting, (2) voting at the meeting if you are a registered stockholder or have obtained a legal proxy from your bank or broker or (3) sending a notice to the Corporate Secretary prior to the meeting stating that you are revoking your proxy.

Q. What if I return my proxy card but do not provide voting instructions?

A. Proxies that are signed and returned but do not contain instructions will be voted (1) FOR the election of the twelve nominees for director, (2) FOR the amendment to our certificate of incorporation to increase the number of authorized shares of voting common stock from 80,000,000 to 240,000,000, and (3) in accordance with the best judgment of the named proxies on any other matters properly brought before the meeting.

Q. Will my shares be voted if I do not provide my proxy instruction form?

A. If you are a registered stockholder and do not provide a proxy, you must attend the meeting in order to vote your shares. If you hold shares through an account with a bank or broker, your shares may be voted even if you do not provide voting instructions on your instruction form. Brokerage firms have the authority under New York Stock Exchange rules to vote shares for which their customers do not provide voting instructions on certain routine matters. The election of directors and the amendment to our certificate of incorporation are considered routine matters for which brokerage firms may vote without specific instructions.

Q. May stockholders ask questions at the meeting?

A. Yes. Our representatives will answer stockholders questions of general interest at the end of the meeting. In order to give a greater number of stockholders an opportunity to ask questions, individuals or groups may be allowed to ask only one question and repetitive or follow-up questions may not be permitted.

Q. How many votes must be present to hold the meeting?

A. Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of March 20, 2006 must be present in person or by proxy at the meeting (23,500,714 shares). This is referred to as a quorum. Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the meeting.

Q. How many votes are needed to approve UnitedAuto s proposals?

A. Regarding proposal 1, the nominees receiving the highest number of For votes will be elected as directors. This number is called a plurality. Shares not voted, whether by marking Abstain on the proxy card or otherwise, will have no impact on the election of directors. Regarding proposal 2, the affirmative vote of holders of a majority of the outstanding shares of common stock (23,500,714 shares) will be required for approval of the amendment to our certificate of incorporation and abstentions and broker non-votes will have the effect of voting against the proposal.

Q. What is UnitedAuto s policy regarding director attendance at the annual meeting?

A. We encourage all of our directors to attend the annual meeting. In 2005, all of our directors attended the annual meeting.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

Proposal 1 to be voted on at the annual meeting is the election of the following twelve director nominees, each of whom is recommended by our Nominating and Corporate Governance Committee and Board of Directors. If elected, each of these nominees will be elected to serve a one-year term and will be subject to re-election at next year s annual meeting. Pursuant to a stockholders agreement, certain of our stockholders affiliated with Roger S. Penske and Mitsui & Co., Ltd. have agreed to vote together to elect members of our Board of Directors. See Related Party Transactions for a description of this stockholders agreement.

Our Board of Directors Recommends a Vote FOR Each of The Following Nominees:

John D. Barr CEO, Papa Murphy s International, Inc.	*Mr. Barr,* 57, has served as a director since December 2002. Mr. Barr has been the Chief Executive Officer of Papa Murphy s International, Inc., a take-and-bake pizza chain, since April 2005 and its Vice Chairman since July 2004. From 1999 until April 2004, Mr. Barr served as President and Chief Executive Officer of Automotive Performance Industries, a vehicle transportation service provider. Prior thereto, Mr. Barr was President and Chief Operating Officer, as well as a member of the Board of Directors, of the Quaker State Corporation from June 1995 to 1999. Prior to joining Quaker State, Mr. Barr spent 25 years with The Valvoline Company, a subsidiary of Ashland, Inc., where he was President and Chief Executive Officer from 1987 to 1995. Mr. Barr is a director of Performance Transportation Systems, Inc., Clean Harbors, Inc., James Hardie Industries, NV and UST, Inc.
Michael R. Eisenson Managing Director and CEO of Charlesbank Capital Partners, L.L.C	*Mr. Eisenson,* 50, has served as a director since December 1993. He is a Managing Director and CEO of Charlesbank Capital Partners L.L.C., a private investment firm and the successor to Harvard Private Capital Group, Inc., which he joined in 1986. Mr. Eisenson is also a director of Catlin Group Limited, Playtex Products, Inc. and Xenogen Corporation, as well as a number of private companies.
Hiroshi Ishikawa Executive Vice President International Business Development of UnitedAuto	*Mr. Ishikawa,* 43, has served as a director since May 2004 and our Executive Vice President International Business Development since June 2004. Previously, Mr. Ishikawa served as the President of Mitsui Automotive North America, Inc. from June 2003 to May 2004. From October 2001 to May 2003, Mr. Ishikawa served as Vice President, Secretary & Treasurer for Mitsui Automotive North America, Inc. From March 1997 to October 2001, Mr. Ishikawa served as the Assistant General Manager, Machinery & Automotive Department, of Mitsui & Co. (U.S.A.), Inc. Detroit Office.
Robert H. Kurnick, Jr. Vice Chairman of UnitedAuto	*Mr. Kurnick, Jr.,* 44, has served as our Vice Chairman since March 8, 2006. From February 2000 until March 2006, Mr. Kurnick served as our Executive Vice President and General Counsel. Since January 2003, Mr. Kurnick has served as President of Penske Corporation. Employed by Penske Corporation since January 1995, Mr. Kurnick has served in various capacities, including Executive Vice President of Penske Corporation and General Counsel of Penske Capital Partners, LLC, from August 1999 to December 2002. Mr. Kurnick is also a director of Penske Corporation.
William J. Lovejoy Manager of Lovejoy & Associates	*Mr. Lovejoy,* 65, has served as a director since March 2004. Since September 2003, Mr. Lovejoy has served as Manager of Lovejoy & Associates, an automotive consulting firm. From January 2000 until December 2002, Mr. Lovejoy served as Group Vice President, North

Table of Contents

American vehicle sales, service and marketing for General Motors Corporation. From 1994 until December 1999, Mr. Lovejoy served as Vice President of General Motors service and parts operation. From 1962 until 1992, Mr. Lovejoy served in various capacities for General Motors Acceptance Corporation (GMAC) and ultimately President of GMAC in 1990.

Kimberly J. McWaters
CEO of Universal Technical Institute, Inc.

Ms. McWaters, 41, has served as a director since December 2004. Since October 2003, Ms. McWaters has served as CEO of Universal Technical Institute, Inc. (UTI), a nationwide provider of technical educational training for individuals seeking careers as professional automotive technicians. Since February 2000, Ms. McWaters has served as President of UTI. From 1984 until 2000, Ms. McWaters held several positions at UTI including vice president of marketing and vice president of sales and marketing.

Eustace W. Mita
Chairman of Achristavest Properties, LLC

Mr. Mita, 51, has served as a director since August 1999. Since October 2002, Mr. Mita has been chairman of Achristavest Properties, LLC, a developer of waterfront properties in New Jersey, Maryland and Pennsylvania, and CEO of Mita Management, L.L.P., a closely held company with interests in the automotive and real estate industries. From April 2000 until October 2001, Mr. Mita served as the Executive Vice President of The Reynolds and Reynolds Company and had been General Manager of Reynolds Transformation Services since May 2000. Prior thereto, Mr. Mita served as President and Chief Executive Officer of HAC Group, LLC, an automobile training and consulting company with operations in nineteen countries, which was acquired by The Reynolds and Reynolds Company in 2000. In 1994, Mr. Mita founded Mita Leasing, a unique concept in automotive retailing and leasing, now celebrating its 20th anniversary. Mr. Mita is also a director of The Reynolds and Reynolds Company and a founding director of First Republic Bank.

Lucio A. Noto
Retired Vice Chairman of ExxonMobil Corporation

Mr. Noto, 67, has served as a director since March 2001. Mr. Noto retired as Vice Chairman of ExxonMobil Corporation in January 2001, a position he had held since the merger of Exxon and Mobil companies in November 1999. Before the merger, Mr. Noto was Chairman and CEO of Mobil Corporation, where he had been employed since 1962. Mr. Noto is a managing partner of Midstream Partners LLC, an investment company specializing in energy and transportation projects. He is also a director of International Business Machines Corporation, the Altria Group, Inc. and Shinsei Bank. Mr. Noto is a member of the Temasek Technologies (Singapore) International Advisory Counsel.

Roger S. Penske
Chairman of the Board and CEO of UnitedAuto and Penske Corporation

Mr. Penske, 69, has served as our Chairman and CEO since May 1999. Mr. Penske has also been Chairman of the Board and CEO of Penske Corporation since 1969. Penske Corporation is a privately owned diversified transportation services company that holds, through its subsidiaries, interests in a number of businesses. Mr. Penske has also been Chairman of the Board of Penske Truck Leasing Corporation since 1982. Mr. Penske serves as a member of the Boards of Directors of Internet Brands, Inc., a private company offering online retail services, General Electric Company, and Universal Technical Institute. Mr. Penske also is a director of Detroit Renaissance and a member of The Business Council.

Table of Contents

Richard J. Peters Managing Director of Transportation Resource Partners, LP	*Mr. Peters,* 58, has served as a director since May 1999. Since January 2003, Mr. Peters has been a Managing Director of Transportation Resource Partners. From January 2000 to December 2002, Mr. Peters was President of Penske Corporation. Since 1997, Mr. Peters has also served as President and CEO of R.J. Peters & Company, LLC, a private investment company. Mr. Peters has also served as an officer and director of various subsidiaries of Penske Corporation since 1990. Mr. Peters has been a member of the Board of Directors of Penske Corporation since 1990.
Ronald G. Steinhart Retired Chairman and CEO, Commercial Banking Group, Bank One Corporation	*Mr. Steinhart,* 65, has served as a director since March 2001. Mr. Steinhart served as Chairman and CEO, Commercial Banking Group, of Bank One Corporation from December 1996 until his retirement in January 2000. From January 1995 to December 1996, Mr. Steinhart was Chairman and CEO of Bank One, Texas, N.A. Mr. Steinhart joined Bank One in connection with its merger with Team Bank, which he founded in 1988. Mr. Steinhart also serves as a Trustee of the MFS/ Compass Group of mutual funds.
H. Brian Thompson Chairman of Comsat International	*Mr. Thompson,* 67, has served as a Director since March 2002. Mr. Thompson is currently Chairman of Comsat International, a telecommunications services provider, and heads his own private equity investment and advisory firm, Universal Telecommunications, Inc., in Vienna, Virginia. Mr. Thompson is also the Chairman and CEO of Mercator Partners Acquisition Corporation, a publicly traded blank check company formed in January 2005 as an acquisition vehicle for an operating business. Mr. Thompson was previously Chairman and CEO of Global TeleSystems Group, Inc. from March 1999 through September 2000. From 1991 to 1998, Mr. Thompson served as Chairman and CEO of LCI International. Subsequent to the merger of LCI with Qwest Communications International Inc. in June 1998, Mr. Thompson became Vice Chairman of the Board for Qwest until his resignation in December 1998. Mr. Thompson was Chairman of the Irish telephone company, Telecom Eirann, in 1999 and Executive Vice President of MCI Communications Corporation from 1981 to 1990. Mr. Thompson currently serves as a member of the Board of Directors of Axcelis Technologies, Inc., Bell Canada International Inc., and Sonus Networks, Inc.

Table of Contents

PROPOSAL 2
AMENDMENT TO CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED SHARES OF VOTING COMMON STOCK FROM 80,000,000 TO 240,000,000

Our certificate of incorporation (the Certificate) presently authorizes the issuance of 107,225,000 shares consisting of 80,000,000 shares of voting common stock, par value $.0001 per share; 7,125,000 shares of non-voting common stock, par value $.0001 per share; 20,000,000 shares of class C common stock, par value $.0001 per share; and 100,000 shares of preferred stock, par value $.0001 per share. The Board of Directors has determined that the Certificate should be amended to increase the number of authorized shares of our voting common stock from 80,000,000 to 240,000,000, and has unanimously approved, subject to stockholder approval, an amendment to our Certificate to effect this increase.

As of March 20, 2006, we had about 47,000,000 shares of voting common stock issued and outstanding; about 2,653,000 shares of voting common stock held in treasury; about 2,100,000 shares of voting common stock reserved for issuance upon the award of restricted stock or the exercise of options or other equity awards under our equity compensation plans, and about 7,900,000 shares of voting common stock reserved for issuance upon conversion of our 3.5% convertible senior subordinated notes due 2026. This leaves a total of about 23,000,000 shares of voting common stock available for future issuance or reservation. There are no shares of non-voting, class C or preferred stock outstanding.

The Board of Directors believes that an increase in the number of authorized shares of voting common stock is necessary to provide UnitedAuto with additional financial flexibility to meet its future business needs. If the proposed amendment is approved by our stockholders, we will have additional shares available for acquisitions, financings, stock option plans, stock dividends or stock splits, the reduction of indebtedness and other corporate purposes. The additional shares would be available for issuance without further stockholder approval, except as may be required by applicable law or the rules of the New York Stock Exchange. Other than as permitted or required under our equity compensation plans or the indenture governing our 3.5% convertible senior subordinated notes, we have no plans or other existing or proposed agreements or understandings to issue or reserve for further issuance the additional shares of voting common stock.

If and when issued, the newly authorized shares of voting common stock would have the same rights and privileges as the shares of voting common stock currently authorized. The number of authorized shares of non-voting common stock, class C common stock and preferred stock would not be affected by the proposed amendment.

The issuance of additional shares of voting common stock could have a dilutive effect on earnings per common share and on the equity and voting power of those holding shares of voting common stock at the time of issuance, as our stockholders do not have preemptive rights. In addition, the proposed amendment could have an anti-takeover effect, as additional shares of voting common stock could be issued to dilute the stock ownership and voting power of, or increase the cost to, a person seeking to obtain control of UnitedAuto. However, the proposed amendment is not being proposed for such purposes and is not in response to any known effort to accumulate shares of common stock or obtain control of UnitedAuto.

The text of the proposed amendment to our Certificate is attached as Annex A.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED SHARES OF VOTING COMMON STOCK FROM 80,000,000 TO 240,000,000.

Table of Contents

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Name	BOD	Audit	Compensation & Management Development	Nominating & Corporate Governance	Executive
John D. Barr	X	X			
Michael R. Eisenson	X	X			X
James A. Hislop	X				
Hiroshi Ishikawa	X				
William J. Lovejoy	X		X		
Kimberly J. McWaters	X			X	
Eustace W. Mita	X		X	X	
Lucio A. Noto	X				X
Roger S. Penske	X				X
Richard J. Peters	X				X
Ronald G. Steinhart	X	X			
H. Brian Thompson	X		X	X	
No. of Meetings 2005	6	14	5	2	0

Our Board of Directors has four standing committees: the Audit Committee, the Compensation and Management Development Committee, the Executive Committee and the Nominating and Corporate Governance Committee. The Board of Directors approved a charter for each of the Audit, Compensation and Management Development, and Nominating and Corporate Governance committees, which charters are available on our website, www.unitedauto.com under the tab Corporate Governance. In addition, our Audit Committee charter is attached hereto as Annex B. The principal responsibilities of each committee are described below. All of our directors attended over 83% of our board and committee meetings in 2005 and the average attendance was 95%.

Audit Committee. The purpose of this committee is to assist the Board of Directors in fulfilling its oversight responsibility relating to (i) the integrity of our financial statements and financial reporting process and our systems of internal accounting and financial controls; (ii) the performance of the internal audit function; (iii) the annual independent audit of our financial statements, the engagement of the independent registered public accounting firms and the evaluation of the independent registered public accounting firms qualifications, independence and performance; and (iv) the fulfillment of the other responsibilities set out in the Audit Committee Charter. The Board of Directors has confirmed that all members of the Audit Committee are independent and financially literate under the New York Stock Exchange rules and applicable law, and each is an audit committee financial expert, as that term is defined in Securities and Exchange Commission rules.

Compensation and Management Development Committee. The purpose of this committee is to assist the Board of Directors in discharging its responsibility relating to compensation of our directors, executive officers and such other employees as this committee may determine, succession planning and related matters. Each committee member is independent under New York Stock Exchange rules and our more stringent guidelines for director independence.

Executive Committee. Our Executive Committee s primary function is to assist our Board of Directors by acting upon matters when the Board of Directors is not in session. The Executive Committee has the full power and authority of the Board of Directors, except to the extent limited by law or our certificate of incorporation or bylaws. This Committee did not meet in 2005.

Nominating and Corporate Governance Committee. The purpose of this committee is to identify individuals qualified to become members of the Board of Directors, to recommend Director nominees for each annual meeting of stockholders and nominees for election to fill any vacancies on the Board of Directors and to address related matters. This committee also develops and recommends to the Board of Directors corporate

Table of Contents

governance principles and is responsible for leading the annual review of our corporate governance policies and the Board of Directors performance. Each of the Committee members is independent under New York Stock Exchange rules and our more stringent guidelines for director independence.

Corporate Governance Guidelines. The Nominating and Corporate Governance Committee also makes recommendations concerning our corporate governance guidelines, which are posted on our website, www.unitedauto.com, under the tab Corporate Governance. These guidelines, and the other documents referenced in this section, are also available in print to any stockholder who requests them by calling our investor relations department at 248-648-2500.

Lead Director. One of our governance principles is that we have a Lead Director, who is responsible for coordinating the activities of the other outside Directors, including the establishment of the agenda for executive sessions of the outside Directors, and who shall preside at their meetings. These sessions generally occur as part of each Board meeting and include, at least annually, a session comprised of only our independent directors. Our Lead Director is currently H. Brian Thompson. He may be contacted by leaving a message at the following telephone number: 800-469-1634. All messages will be reviewed by our Corporate Secretary s office and all (other than frivolous messages) will be forwarded to the Lead Director. Any written communications to the Board of Directors may be sent care of the Corporate Secretary to our principal executive office. These communications (other than frivolous messages) also will be forwarded to the Lead Director.

Code of Conduct. We have also adopted a Code of Business Conduct and Ethics, applicable to all of our employees and directors, which is posted on our website at www.unitedauto.com under the tab Corporate Governance. We plan to disclose waivers for our executive officers or directors from the code on our website, www.unitedauto.com.

Director Independence. A majority of our Board of Directors is independent. The Board of Directors has determined that Ms. McWaters and Messrs. Barr, Eisenson, Lovejoy, Mita, Steinhart and Thompson are each independent in accordance with the listing requirements of the New York Stock Exchange, as well as with the more stringent requirements of our guidelines for independent directors found in our corporate governance guidelines and which are set forth below. As required by New York Stock Exchange rules, our Board of Directors made an affirmative determination as to each independent director that no material relationship exists which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the Board of Directors reviewed and discussed information provided by the directors and us with regard to each director s business and personal activities as they may relate to us and our management.

For a director to be considered independent under our corporate governance guidelines, the Board of Directors must determine that the director does not have any direct or indirect material relationship with us (including any parent or subsidiary in a consolidated group with us). In addition to applying these guidelines, the Board of Directors considers all relevant facts and circumstances in making an independence determination, and not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation.

Under our guidelines, a director will not be independent if:

1. the director is employed by us, or an immediate family member is one of our executive officers;

2. the director receives any direct compensation from us, other than director and committee fees and forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

3. the director is affiliated with or employed by our independent registered public accounting firms (or internal auditors), or an immediate family member is affiliated with or employed in a professional capacity by our independent registered public accounting firms (or internal auditors); or

Table of Contents

4. an executive officer of ours serves on the compensation committee of the board of directors of a company that employs the director or an immediate family member as an executive officer.

A director also will not be independent if, at the time of the independence determination, the director is an executive officer or employee, or if an immediate family member is an executive officer, of another company that does business with us and the sales by that company to us or purchases by that company from us, in any single fiscal year during the evaluation period, are more than the greater of one percent of the annual revenues of that company or $1 million. Furthermore, a director will not be independent if, at the time of the independence determination, the director is an executive officer or employee, or an immediate family member is an executive officer, of another company that is indebted to us, or to which we are indebted, and the total amount of either company s indebtedness to the other at the end of the last completed fiscal year is more than one percent of the other company s total consolidated assets. Finally, a director will not be independent if, at the time of the independence determination, the director serves as an officer, director or trustee of a charitable organization, and our charitable contributions to the organization are more than one percent of that organization s total annual charitable receipts during its last completed fiscal year.

Under the New York Stock Exchange rules, if a company is controlled, it need not have a majority of independent directors or solely independent compensation or nominating committees. We are a controlled company because more than 50% of the voting power for the election of directors is held by Penske Corporation and its affiliates, and Mitsui & Co. and its affiliates. These entities are considered a group due to the provisions of the stockholders agreement between these parties described under Related Party Transactions. Even though we are a controlled company, we are fully compliant with the New York Stock Exchange rules for non-controlled companies. A majority of our Board of Directors is independent and each of our nominating, audit and compensation committees are comprised solely of independent directors.

Director Nominees. The Nominating and Corporate Governance Committee believes that director candidates should have certain minimum qualifications, including having personal integrity, loyalty to UnitedAuto and concern for its success and welfare, willingness to apply sound and independent business judgment and time available for UnitedAuto matters. Experience in at least one of the following is also desired: high level of leadership experience in business or administration, breadth of knowledge concerning issues affecting UnitedAuto, willingness to contribute special competence to board activities, accomplishments within the director s respective field and experience reading and understanding financial statements. The Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time.

The Nominating and Corporate Governance Committee s process for identifying and evaluating nominees is as follows: in the case of incumbent directors whose terms of office are set to expire, the Committee reviews such directors overall service to UnitedAuto during their term. In the case of new director candidates, the Committee uses its network of contacts to compile potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Committee determines whether the nominee would be independent. The Committee then meets with each candidate individually to discuss and consider his or her qualifications and, if approved, recommends the candidate to the Board.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. Stockholder proposals for nominees should be addressed to Corporate Secretary, United Auto Group, 2555 Telegraph Road, Bloomfield Hills, MI 48302 and must comply with the procedures outlined immediately below. The committee s evaluation of stockholder-proposed candidates will be the same as for any other candidates.

Stockholders who wish to recommend individuals for consideration by the committee to become nominees for election to the Board may do so by submitting a written recommendation to the Corporate Secretary. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history with employer names and a description of the employer s business, whether such individual can read and understand basic financial statements and a list of board memberships and other affiliations of the nominee. The submission must be accompanied by a written consent of the individual to stand for election and serve if elected by the stockholders, a statement of any relationships

Table of Contents

between the person recommended and the person submitting the recommendation, and a statement of any relationships between the candidate and any automotive retailer, manufacturer or supplier. Recommendations received by December 3, 2006, will be considered for nomination at the 2007 annual meeting of stockholders. Recommendations received after December 3, 2006, will be considered for nomination at the 2008 annual meeting of stockholders.

Director Compensation. The Board of Directors believes that its members should receive a mix of cash and equity compensation, with the option to receive all compensation in the form of equity. The Board of Directors approves changes to director compensation only upon the recommendation of the Compensation and Management Development Committee, which is composed solely of independent directors. Only directors who are not our paid employees, who we call Outside Directors, are eligible for director compensation, unless otherwise noted. Each Outside Director receives an annual retainer of $40,000, except for Audit Committee members, who receive $45,000. These fees are payable, at the option of each Outside Director, in cash or common stock. Our Outside Directors also receive an annual grant of 1,000 shares of restricted stock generally in the first quarter. These restricted shares vest ratably and annually over three years.

Under our Non-Employee Director Compensation Plan, the annual retainer and restricted stock awards may be deferred in either the form of cash (for the annual retainer) and/or deferred stock units. Each deferred stock unit is equal in value to a share of common stock and ultimately paid in cash after a director retires. These stock units do not have voting rights, but do generate dividend equivalents in the form of additional stock units and are credited to the director s account on the date the dividends are paid. Any fees deferred in cash will be held in our general funds. Interest on deferred fees is credited quarterly to the account at the then current U.S. 90 day Treasury Bill rate.

As part of our director continuing education program, each director is eligible to be reimbursed by us for the cost and expenses relating to one education seminar per year. Each Outside Director also is entitled to the use of a vehicle (and company-sponsored automobile insurance relating to that vehicle), the cost of which averaged about $16,200 per Outside Director in 2005. All directors are entitled to reimbursement for their reasonable out-of-pocket expenses in connection with their travel to, and attendance at, meetings of the Board of Directors or its committees. Because we expect attendance at all meetings, and a substantial portion of the Board of Directors work is done outside of formal meetings, we do not pay meeting fees.

Outside Directors are also eligible to participate in a charitable matching gift program. Under this program, we will match up to $25,000 per year in contributions by the Outside Director to institutions qualified as tax-exempt organizations under 501(c)(3) of the Internal Revenue Code and other institutions approved at the discretion of management. We may decline to match any contribution to an institution with goals that are incompatible with ours, or due to conflicts with our director independence policy. This program is not available for matching of political contributions. While the contributions are directed by our Outside Directors, we retain the tax deduction for these contributions. We contributed $122,500 under this program in 2005.

We have ten Outside Directors and two employee directors. Directors who are also our employees receive no cash compensation for serving as directors or as members of committees. In July 2005, Roger Penske and Hiroshi Ishikawa were granted 18,663 and 1,000 shares, respectively, of restricted common stock in their capacity as our officers.

Compensation Committee Interlocks and Insider Participation. During 2005, the Compensation and Management Development Committee was comprised of H. Brian Thompson (Chairman) and William Lovejoy. Neither of these members had any compensation committee interlocks.

Table of Contents

EXECUTIVE OFFICERS

Our named executive officers are elected by the Board of Directors and hold office until their successors have been duly elected and qualified or until their earlier resignation or removal from office. A brief biography of Messrs. Kurnick and Penske are set forth above. Brief biographies of our other named executive officers are provided below.

James R. Davidson, 60, has served as our Executive Vice President Finance since May 1999, as our Executive Vice President Accounting and Treasurer from August 1997 to May 1999, and as our Senior Vice President Finance from February 1997 to August 1997. Prior to joining us, Mr. Davidson was an audit partner for Ernst & Young LLP, an accounting and financial advisory services firm, which he joined in 1973.

Robert T. O Shaughnessy, 40, has served as our Senior Vice President Finance since July 2005. From August 1999 until July 2005, he served as our Vice President and Controller. Prior to Mr. O Shaughnessy s joining us in May 1997 as Assistant Controller, he was a senior manager for Ernst & Young LLP, an accounting and financial advisory services firm, which he joined in 1987.

Paul F. Walters, 62, has served as our Executive Vice President Human Resources since August 1999. Since July 1997, Mr. Walters has also served as Executive Vice President Administration of Penske Corporation. Mr. Walters served as Senior Vice President of Detroit Diesel Corporation from August 1997 to December 2000.

REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE ON EXECUTIVE COMPENSATION

Our Compensation and Management Development Committee s responsibilities include establishing our policies regarding the compensation of our executive officers and other key employees. The committee reviews all elements of compensation for our executive officers and is responsible for the administration of our incentive equity plans. The committee is comprised only of independent directors as set forth in the listing requirements of the New York Stock Exchange, as well as in the more stringent requirements of our corporate governance guidelines. The members of the committee also qualify as non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act and as outside directors within the meaning of Section 162(m) of the Internal Revenue Code.

Compensation Program Objectives. Our compensation program consists of:

- base salary;
- annual bonus payment;
- annual equity-based award; and
- employee health care and other benefits, such as the use of a company vehicle.

The objectives of our compensation program are to motivate and reward our executive officers and other key employees, to improve long-term stockholder value and to attract and retain the highest quality executive and key employee talent available. Our executive compensation program is designed to align executive compensation practices with increasing the value of our common stock and to promote our business mission, values, strategic goals and annual objectives.

Determination of Amounts. The committee reviews and determines all aspects of compensation for our chief executive officer. The committee also reviews and establishes appropriate compensation parameters for management given their role in the corporate structure. In making decisions regarding non-CEO compensation, the committee receives input from our Chief Executive Officer. The committee reviews annual increases or decreases with a view to maintaining internal compensation consistency and external compensation competitiveness. External competitiveness is benchmarked against other publicly traded automotive retailers, and in some cases, other large automotive and other retailers. The committee does not employ outside consultants to recommend compensation levels (though it retains the authority to do so).

Base Salary. We pay base salary to set a baseline level of compensation for all employees. The salary levels for our executive officers are determined by level of job responsibility and experience, job performance and attainment of corporate objectives. The committee reviews and recommends salary levels for executive officers and certain key employees in order to maintain internal compensation consistency, external compensation competitiveness and to reflect the contributions by those employees in the prior year. In making its recommendations, the committee considers the executive s scope of responsibilities, level of experience and individual performance, as well as the Company s achievement of corporate objectives, performance verses the business plan and general economic factors.

Annual Bonus Payments. Each member of our senior management is eligible to receive an annual bonus payment. We pay annual bonuses to provide an incentive for future performance and as a reward for prior year s performance. Since the annual bonus is based in part on our company-wide performance, we believe the annual bonus also focuses employees on our corporate goals designed to increase stockholder value. The committee reviews and recommends bonus payouts for our executive officers and certain other key employees based in part on management s and the committee s evaluation of individual performance in the prior year and the assessment of the annual performance of an individual s business unit. Also considered are the previous year s company-wide performance and the attainment of corporate earnings goals.

Equity Incentives. The committee believes strongly that the interests of senior management must be closely aligned with those of our stockholders. Therefore, each member of senior management is eligible to receive an incentive equity award because we believe equity grants most effectively align management s goals with those of our other stockholders. In 2005, we continued to issue incentive compensation for our senior management team in the form of restricted stock. In recent years, we have extended the vesting period of our restricted stock grants to four years and weighted the vesting so that a majority of the award vests in the third and fourth years. We believe this provides a long-term incentive and more closely aligns the incentives for management with the interests of our long-term stockholders.

We typically grant restricted stock annually on a discretionary basis within a guideline range that takes into account the responsibilities of executive officers and key employees whose contributions and skills are important to our long-term success. Individual performance of each recipient is reviewed by management in its recommendation of awards to the committee. Annual awards are based on the evaluation of each person s individual performance in the prior year and the assessment of the annual performance of that person s business unit. In 2005, the committee granted approximately 171,000 shares of restricted stock to our management group, some of which has reverted back to us as employees have departed from UnitedAuto. From time-to-time, the committee also approves special equity awards based on an employee s outstanding contributions or other factors.

Employee Benefits. We provide our employees with other benefits in order to attract and retain highly skilled employees. Our employees generally are entitled to a number of benefits such as corporate contribution toward health benefits and corporate paid life insurance. In addition, senior management is provided the use of a company vehicle, company-sponsored automobile insurance, and a tax gross-up relating to these amounts. We provide senior management with company vehicles for retention, but also to familiarize them with the vehicles we sell. With respect to health benefits, the committee believes that our employees should receive a meaningful benefit package commensurate with those of other automotive retailers, recognizing the increasing corporate cost of those benefits in recent years.

Management Incentive Plan. Section 162(m) of the Internal Revenue Code of 1986, as amended, generally imposes a $1,000,000 per year ceiling on tax-deductible remuneration paid to any one of the five most highly compensated executive officers of a publicly held corporation, unless the remuneration is treated as performance-based or is otherwise exempt from the provisions of Section 162(m). In 2004, our stockholders approved the United Auto Group Management Incentive Plan, designed to provide for the payment of performance-based compensation that is qualified within the meaning of Section 162(m) of the Internal Revenue Code and that we may deduct for tax purposes. From time-to-time, the committee has approved awards under the plan, including to our Chief Executive Officer. While the committee intends to

Table of Contents

maximize the tax-efficiency of its compensation programs generally, it retains flexibility in the manner in which it awards compensation to act in our best interests and the best interests of our stockholders, including awarding compensation that may not be tax deductible.

Other Forms of Compensation. The committee has also reviewed various other forms of executive compensation for our management. The committee is currently of the view that salary, bonus and restricted stock awards should provide the principal components of management compensation and these forms of compensation best align management s goals with those of our stockholders. Therefore, after review, the committee has determined not to issue or grant any executive any stock options, deferred compensation in the form of a deferral of salary or bonus, or retirement benefit (other than under our all employee 401(k) plan). The committee considers the advisability of these additional types of compensation periodically and retains the flexibility to implement other forms of compensation in the future. For these reasons, our executive officers are also not entitled to any severance compensation, except as disclosed under Executive Compensation-Employment Contracts or upon the potential vesting of certain outstanding equity awards.

Chief Executive Officer. In 2005, we substantially increased our revenues and income from continuing operations from 2004 levels. We successfully acquired numerous dealerships, improved our brand mix and made significant strides toward integrating those operations into our business. We made significant progress toward increasing the performance of our fixed operations, improving store appearances and developing dealership campuses. We also continued our significant same-store sales growth and we are the only U.S.-based automotive retailer with a substantial number of dealerships outside the U.S.

In determining the compensation of Mr. Penske, the committee considered these factors and also monitors the compensation and performance of our peer companies. The committee also considered UnitedAuto s relative stockholder return and previous year s compensation. For these reasons, the committee recommended an increase in Mr. Penske s base salary. However, for the second consecutive year, Mr. Penske declined the salary increase in order to more closely align his total compensation to the performance of our common stock and the interests of our shareholders. Therefore, the committee maintained Mr. Penske s base salary at $750,000. In March 2006, the Committee awarded Mr. Penske a cash bonus of $1,000,000, as well as 23,073 shares of restricted stock valued at $1,000,000 based on the closing price on the New York Stock Exchange on the date of approval ($43.34). The bonus was based on our strong financial performance including our strong same-store sales growth, growth in earnings per share, and return on equity, as well as operational performance, such as achievements in reducing employee turnover and customer satisfaction. While the committee believes that Mr. Penske has made outstanding efforts towards our successes noted above, it has noted that Mr. Penske s compensation is generally on par or less than those of our peer companies chief executive officers. Mr. Penske does not participate in the approval of his own compensation.

The Compensation & Management Development Committee of the Board of Directors

H. Brian Thompson (Chairman)
William J. Lovejoy
Eustace W. Mita

13

Table of Contents

EXECUTIVE COMPENSATION

The following table contains information concerning annual and long-term compensation for the years indicated of our chief executive officer and each of our four other most highly compensated executive officers during 2005, collectively referred to as the named executive officers.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation($)	Restricted Stock Awards (1)(2)($)
Roger S. Penske	2005	750,000	1,000,000		601,700
Chief Executive Officer	2004	750,000	900,000		225,825
	2003	750,000	1,000,000		225,625
Samuel X. DiFeo	2005	400,000	100,000	57,236(5)	112,840
President and Chief	2004	400,000	200,000	116(4)	105,385
Operating Officer	2003	400,000	200,000	552(4)	135,375
James R. Davidson	2005	480,000	320,000	28,783(5	