

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

May 08, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q**

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

**For the quarterly period ended March 31, 2009**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-12297**

**Penske Automotive Group, Inc.**

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

**Delaware**

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

**22-3086739**

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

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

*(Address of principal executive offices)*

**48302-0954**

*(Zip Code)*

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

**(248) 648-2500**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of May 1, 2009, there were 91,530,960 shares of voting common stock outstanding.

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	<b>(Unaudited)</b>	
	<b>(In thousands, except per share amounts)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,458	\$ 20,109
Accounts receivable, net of allowance for doubtful accounts of \$1,925 and \$2,075	312,039	294,567
Inventories	1,360,239	1,593,267
Other current assets	91,193	88,378
Assets held for sale	8,411	9,739
Total current assets	1,783,340	2,006,060
Property and equipment, net	666,602	662,493
Goodwill	774,349	777,811
Franchise value	196,332	196,838
Equity method investments	285,338	296,487
Other long-term assets	19,154	22,460
Total assets	\$ 3,725,115	\$ 3,962,149
<b>LIABILITIES AND EQUITY</b>		
Floor plan notes payable	\$ 847,711	\$ 968,873
Floor plan notes payable non-trade	389,491	511,357
Accounts payable	201,798	178,811
Accrued expenses	199,085	196,274
Current portion of long-term debt	11,132	11,305
Liabilities held for sale	10,592	13,492
Total current liabilities	1,659,809	1,880,112
Long-term debt	1,008,093	1,052,060
Other long-term liabilities	228,743	221,556
Total liabilities	2,896,645	3,153,728
Commitments and contingent liabilities		
<b>Equity</b>		
Penske Automotive Group stockholders' equity:		
Preferred Stock, \$0.0001 par value; 100 shares authorized; none issued and outstanding		

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Common Stock, \$0.0001 par value, 240,000 shares authorized; 91,531 shares issued and outstanding at March 31, 2009; 91,431 shares issued and outstanding at December 31, 2008

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

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

Additional paid-in-capital	732,577	731,037
Retained earnings	136,027	119,745
Accumulated other comprehensive loss	(43,619)	(45,990)

Total Penske Automotive Group stockholders' equity	824,994	804,801
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Non-controlling interest	3,476	3,620
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Total equity	828,470	808,421
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Total liabilities and equity	\$ 3,725,115	\$ 3,962,149
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See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

	Three Months Ended March 31,	
	2009	2008
	(Unaudited)	
	(In thousands, except per share amounts)	
Revenue:		
New vehicle	\$ 972,127	\$ 1,625,950
Used vehicle	614,630	794,063
Finance and insurance, net	48,409	73,877
Service and parts	327,554	359,142
Distribution	80,113	63,770
Fleet and wholesale	115,043	258,535
Total revenues	2,157,876	3,175,337
Cost of sales:		
New vehicle	900,750	1,489,357
Used vehicle	558,650	728,295
Service and parts	150,453	157,885
Distribution	68,314	53,617
Fleet and wholesale	111,418	257,696
Total cost of sales	1,789,585	2,686,850
Gross profit	368,291	488,487
Selling, general and administrative expenses	313,002	394,072
Depreciation and amortization	12,872	13,291
Operating income	42,417	81,124
Floor plan interest expense	(9,515)	(17,026)
Other interest expense	(14,494)	(11,911)
Debt discount amortization	(3,638)	(3,496)
Equity in earnings of affiliates	714	1,392
Gain on debt repurchase	10,429	
Income from continuing operations before income taxes	25,913	50,083
Income taxes	(9,717)	(17,809)
Income from continuing operations	16,196	32,274
Income from discontinued operations, net of tax	6	57
Net income	16,202	32,331
Less: (Loss) income attributable to non-controlling interests	(80)	435
Net income attributable to Penske Automotive Group common stockholders	\$ 16,282	\$ 31,896

**Basic earnings per share attributable to Penske Automotive Group common stockholders:**

Continuing operations	\$	0.18	\$	0.33
Discontinued operations		0.00		0.00

Net income	\$	0.18	\$	0.34
Shares used in determining basic earnings per share		91,481		95,137

**Diluted earnings per share attributable to Penske Automotive Group common stockholders:**

Continuing operations	\$	0.18	\$	0.33
Discontinued operations		0.00		0.00

Net income	\$	0.18	\$	0.33
Shares used in determining diluted earnings per share		91,501		95,252

**Amounts attributable to Penske Automotive Group common stockholders:**

Income from continuing operations	\$	16,196	\$	32,274
Less: (Loss) income attributable to non-controlling interests		(80)		435

Income from continuing operations, net of tax		16,276		31,839
Income from discontinued operations, net of tax		6		57

Net income	\$	16,282	\$	31,896
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Cash dividends per share	\$		\$	0.09
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See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>Operating Activities:</b>		
Net income	\$ 16,202	\$ 32,331
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	12,872	13,291
Debt discount amortization	3,638	3,496
Undistributed earnings of equity method investments	(714)	(1,392)
Income from discontinued operations, net of tax	(6)	(57)
Deferred income taxes	12,191	3,163
Gain on debt repurchase	(10,733)	
Changes in operating assets and liabilities:		
Accounts receivable	(17,402)	(52,660)
Inventories	250,341	(131,566)
Floor plan notes payable	(121,202)	123,767
Accounts payable and accrued expenses	23,090	55,179
Other	7,588	(9,159)
Net cash from continuing operating activities	175,865	36,393
<b>Investing Activities:</b>		
Purchase of equipment and improvements	(27,529)	(47,154)
Proceeds from sale-leaseback transactions		3,676
Dealership acquisitions net, including repayment of sellers' floor plan notes payable of \$5,784 and \$0, respectively	(11,476)	
Other	12,679	(1,500)
Net cash from continuing investing activities	(26,326)	(44,978)
<b>Financing Activities:</b>		
Proceeds from borrowings under U.S. credit agreement revolving credit line	147,000	138,200
Repayments under U.S. credit agreement revolving credit line	(77,000)	(138,200)
Repayments under U.S. credit agreement term loan	(10,000)	
Repurchase 3.5% senior subordinated convertible notes	(51,425)	
Net repayments of other long-term debt	(43,333)	(226)
Net (repayments) borrowings of floor plan notes payable - non-trade	(121,866)	24,632
Dividends		(8,550)
Net cash from continuing financing activities	(156,624)	15,856
Discontinued operations:		
Net cash from discontinued operating activities	1,911	(9,380)
Net cash from discontinued investing activities	(761)	(816)



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Net cash from discontinued financing activities	(2,716)	9,962
Net cash from discontinued operations	(1,566)	(234)
Net change in cash and cash equivalents	(8,651)	7,037
Cash and cash equivalents, beginning of period	20,109	14,798
Cash and cash equivalents, end of period	\$ 11,458	\$ 21,835

**Supplemental disclosures of cash flow information:**

Cash paid for:

Interest	\$ 16,416	\$ 20,060
Income taxes	533	660

See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENT OF EQUITY**

	Common Stock	Additional		Accumulated		Total		
	Issued	Paid-in	Retained	Comprehensive	Other	to Penske	Non-controlling	Total
	Shares	Amount	Capital	Earnings	Loss	Automotive	Interest	Equity
				(Unaudited)		Group		
				(Dollars in thousands)				
Balance, January 1, 2009	91,430,781	\$ 9	\$ 731,037	\$ 119,745	\$ (45,990)	\$ 804,801	\$ 3,620	\$ 808,421
Equity compensation	100,179		1,540			1,540		1,540
Distributions to non-controlling interests							(64)	(64)
Foreign currency translation					2,208	2,208		2,208
Other					163	163		163
Net income				16,282		16,282	(80)	16,202
Balance, March 31, 2009	91,530,960	\$ 9	\$ 732,577	\$ 136,027	\$ (43,619)	\$ 824,994	\$ 3,476	\$ 828,470

See Notes to Consolidated Condensed Financial Statements

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

**1. Interim Financial Statements**

***Basis of Presentation***

The following unaudited consolidated condensed financial statements of Penske Automotive Group, Inc. (the Company ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and disclosures normally included in the Company s annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of March 31, 2009 and December 31, 2008 and for the three month periods ended March 31, 2009 and 2008 is unaudited, but includes all adjustments which the management of the Company believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through March 31, 2009 and the results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2008, which are included as part of the Company s Annual Report on Form 10-K.

Results for the quarter ended March 31, 2009 include a \$10,429 pre-tax gain relating to the repurchase of \$68,740 aggregate principal amount of 3.5% senior subordinated convertible notes.

In June 2008, the Company acquired a 9% limited partnership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading global transportation services provider, from subsidiaries of General Electric Capital Corporation (collectively, GE Capital ) in exchange for \$219,000. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including transportation and distribution center management and supply chain management.

***Discontinued Operations***

The Company accounts for dispositions as discontinued operations when it is evident that the operations and cash flows of the business being disposed of will be eliminated from on-going operations and that the Company will not have any significant continuing involvement in its operations.

In evaluating whether the cash flows of a dealership will be eliminated from ongoing operations in its retail segment, the Company considers whether it is likely that customers will migrate to similar franchises that it owns in the same geographic market. The Company s consideration includes an evaluation of the brands sold at other dealerships it operates in the market and their proximity to the disposed dealership. When the Company disposes of franchises, it typically does not have continuing brand representation in that market. If the franchise being disposed of is located in a complex of Company owned dealerships, the Company does not treat the disposition as a discontinued operation if the Company believes that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining franchises. The results of operations during the three months ended March 31, 2009 and 2008 and the net assets as of March 31, 2009 and December 31, 2008 of dealerships accounted for as discontinued operations were immaterial.

***Estimates***

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

***Accounting Changes***

The Company adopted FASB Staff Position ( FSP ) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) effective January 1, 2009. Pursuant to FSP APB 14-1, the Company was required to account separately for the debt and equity components of its 3.5% Senior Subordinated Convertible Notes. The value ascribed to the debt component was determined using a fair value methodology, with the residual representing the equity component. The equity component was recorded as an increase in equity, with the debt discount being amortized as additional interest expense over the expected life of the instrument. The Company has applied the provisions of this standard retrospectively to all periods presented herein in accordance with SFAS No. 154, Accounting Changes and Error Corrections. As a result of this accounting change, the Company's retained earnings as of January 1, 2008 decreased by \$13,884 from \$587,566 as originally reported to \$573,682.

**Table of Contents****PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities effective January 1, 2009, which requires that unvested share-based payment awards with non-forfeitable rights to dividends or dividend equivalents be considered participating securities that must be included in the computation of EPS pursuant to the two-class method. The Company has applied the provisions of this standard retrospectively to all periods presented herein in accordance with SFAS No. 154. As a result, basic weighted average shares outstanding increased by 666 shares and 802 shares for the three months ended March 31, 2009 and 2008, respectively. Diluted shares outstanding increased by 587 and 595 shares for the three months ended March 31, 2009 and 2008, respectively.

The following tables summarize the effect of the accounting changes resulting from the adoption of FSP APB 14-1 and FSP EITF 03-6-1, which required retrospective application, on our consolidated condensed financial statements.

	2009			2008		
	As calculated under previous accounting	Effect of changes	As reported	As calculated under previous accounting	Effect of changes	As reported
<i>Statement of Income for the three months ended March 31:</i>						
Other interest expense	14,606	(112)	14,494	12,023	(112)	11,911
Debt discount amortization		3,638	3,638		3,496	3,496
Income tax expense	11,123	(1,406)	9,717	19,159	(1,350)	17,809
Income from continuing operations attributable to Penske Automotive Group common stockholders	18,396	(2,120)	16,276	33,873	(2,034)	31,839
Net income attributable to Penske Automotive Group common stockholders	18,402	(2,120)	16,282	33,930	(2,034)	31,896
Income from continuing operations attributable to Penske Automotive Group common stockholders per basic common share	0.20	(0.02)	0.18	0.36	(0.03)	0.33
Net income attributable to Penske Automotive Group common stockholders per basic common share	0.20	(0.02)	0.18	0.36	(0.02)	0.34
Shares used in determining basic earnings per share	90,815	666	91,481	94,335	802	95,137
Income from continuing operations attributable to Penske Automotive Group common stockholders per diluted common share	0.20	(0.02)	0.18	0.36	(0.03)	0.33
Net income attributable to Penske Automotive Group common stockholders per diluted common share	0.20	(0.02)	0.18	0.36	(0.02)	0.33
	90,914	587	91,501	94,657	595	95,252

Shares used in determining diluted  
earnings per share

	2009			2008		
	As calculated under previous accounting	Effect of changes	As reported	As calculated under previous accounting	Effect of changes	As reported
<i>Balance Sheet as of March 31, 2009 and December 31, 2008:</i>						
Other current assets	91,560	(367)	91,193	88,828	(450)	88,378
Other long-term assets	19,521	(367)	19,154	23,022	(562)	22,460
Long-term debt	1,034,418	(26,325)	1,008,093	1,087,932	(35,872)	1,052,060
Other long-term liabilities	218,701	10,042	228,743	207,771	13,785	221,556
Additional paid-in-capital	689,484	43,093	732,577	687,944	43,093	731,037
Retained earnings	163,571	(27,544)	136,027	141,763	(22,018)	119,745

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

	2009			2008		
	As calculated under previous accounting	Effect of changes	As reported	As calculated under previous accounting	Effect of changes	As reported
<i>Statement of Cash Flows for the three months ended March 31:</i>						
Net income	18,322	(2,120)	16,202	34,365	(2,034)	32,331
Debt discount amortization		3,638	3,638		3,496	3,496
Deferred income taxes	13,597	(1,406)	12,191	4,513	(1,350)	3,163
Other	7,700	(112)	7,588	(9,047)	(112)	(9,159)
Net cash from continuing operating activities	175,865		175,865	36,393		36,393

The Company adopted SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an Amendment of ARB No. 51, pursuant to which the Company reclassified its minority interest liabilities to equity relating to the Company's non-wholly owned consolidated subsidiaries and amended the presentation of income attributable to non-controlling interests on the income statement. Prior period statements have been reclassified to conform to the current year presentation. There were no changes in the Company's ownership interest of non-wholly owned consolidated subsidiaries during the period that would impact equity attributable to Penske Automotive Group.

The Company adopted FSP FAS 157-2, which deferred the provisions of SFAS No. 157, Fair Value Measurements, for non-financial assets and liabilities until January 1, 2009. The adoption of FAS FAS 157-2 did not have a material effect on the Company's operating results, financial position or cash flows during the period.

The Company adopted FSP FAS 142-3, Determination of the Useful Life of Intangible Assets, which amends the factors that should be considered in developing renewal or extension assumptions used in connection with the determination of the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets on January 1, 2009. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset is being applied to intangible assets acquired after adoption, with related disclosure requirements being applied to all intangible assets recognized as of, and subsequent to, adoption. The adoption of FSP FAS 142-3 did not have a material effect on the Company's operating results, financial position or cash flows during the period.

The Company adopted SFAS No. 141(R) Business Combinations, including FSP FAS 141(R)-1, an amendment to SFAS No. 141(R), effective January 1, 2009. SFAS No. 141(R) requires almost all assets acquired and liabilities assumed in business combinations to be recorded at fair value as of the acquisition date, liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period, acquisition related costs to be expensed as incurred, and restructuring costs expected, but not obligated to occur as a result of the business combination, to be expensed subsequent to the acquisition. FSP FAS 141(R)-1 requires that pre-acquisition contingencies be recognized at fair value if the acquisition-date fair value of that asset or liability can be determined during the measurement period. The provisions of these pronouncements are applicable on a prospective basis to all business combinations subsequent to the effective date. The adoption of these pronouncements did not have a material impact to the Company's operating results, financial position or cash flows during the period.

**2. Inventories**

Inventories consisted of the following:

<b>March 31,</b>	<b>December 31,</b>
<b>2009</b>	<b>2008</b>

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New vehicles	\$ 1,013,168	\$ 1,251,727
Used vehicles	265,268	259,474
Parts, accessories and other	81,803	82,066
Total inventories	\$ 1,360,239	\$ 1,593,267



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The Company receives non-refundable credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$4,215 and \$6,297 during the three months ended March 31, 2009 and 2008, respectively.

**3. Business Combinations**

The Company s acquired five retail automotive franchises during the three months ended March 31, 2009. The Company made no acquisitions during the three months ended March 31, 2008. The fair value of the assets acquired and liabilities assumed may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed during the three months ended March 31, 2009 follows:

	<b>March 31, 2009</b>
Inventory	\$ 5,815
Other current assets	129
Property and equipment	4,367
Goodwill	1,657
Franchise value	749
Current liabilities	(1,241)
Cash used in dealership acquisitions	\$ 11,476

**4. Intangible Assets**

Following is a summary of the changes in the carrying amount of goodwill and franchise value for the three months ended March 31, 2009:

	<b>Goodwill</b>	<b>Franchise Value</b>
Balances January 1, 2009	\$ 777,811	\$ 196,838
Additions	1,657	749
Deletions		
Foreign currency translation	(5,119)	(1,255)
Balance March 31, 2009	\$ 774,349	\$ 196,332

During the fourth quarter 2008, the Company determined that the carrying value of the goodwill in four of its five reporting units exceeded fair value, and recorded an estimated pre-tax non-cash impairment charge of \$606,349. The Company finalized the goodwill impairment assessment during the first quarter of 2009, and determined that no adjustment to the estimate recorded in 2008 was required.

**5. Floor Plan Notes Payable Trade and Non-trade**

The Company finances substantially all of its new and a portion of its used vehicle inventories under revolving floor plan arrangements with various lenders. In the U.S., the floor plan arrangements are due on demand; however, the Company has not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. The Company typically makes monthly interest payments on the amount financed. Outside the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less, and the Company is generally required to repay floor plan advances at the earlier of the sale of the vehicles that have

been financed or the stated maturity. All of the floor plan agreements grant a security interest in substantially all of the assets of the Company's dealership subsidiaries, and in the U.S. are guaranteed by the Company's parent. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined LIBOR or Euro Interbank Offer Rate. The Company classifies floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable – non-trade on its consolidated condensed balance sheets, and classifies related cash flows as a financing activity on its consolidated condensed statements of cash flows.

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**6. Earnings Per Share**

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and weighted average shares of voting common stock outstanding. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the weighted average shares of voting common stock outstanding, adjusted for the dilutive effect of stock options. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2009 and 2008 follows:

	Three Months Ended March 31,	
	2009	2008
Weighted average number of common shares outstanding	91,481	95,137
Effect of stock options	20	115
Weighted average number of common shares outstanding, including effect of dilutive securities	91,501	95,252

As of March 31, 2009, 227 stock options have been excluded from the calculation of diluted earnings per share because the effect of such securities was anti-dilutive. There were no anti-dilutive stock options as of March 31, 2008. In addition, the Company has senior subordinated convertible notes outstanding which, under certain circumstances discussed in Note 7, may be converted to voting common stock. As of March 31, 2009 and 2008, no shares related to the senior subordinated convertible notes were included in the calculation of diluted earnings per share because the effect of such securities was not dilutive.

**7. Long-Term Debt**

Long-term debt consisted of the following:

	March 31, 2009	December 31, 2008
U.S. credit agreement revolving credit line	\$ 70,000	\$
U.S. credit agreement term loan	199,000	209,000
U.K. credit agreement revolving credit line	22,955	59,831
U.K. credit agreement term loan	22,786	25,752
U.K. credit agreement seasonally adjusted overdraft line of credit	4,651	9,502
7.75% senior subordinated notes due 2016	375,000	375,000
3.5% senior subordinated convertible notes due 2026, net of debt discount	279,935	339,128
Mortgage facilities	42,022	42,243
Other	2,876	2,909
Total long-term debt	1,019,225	1,063,365
Less: current portion	(11,132)	(11,305)
Net long-term debt	\$ 1,008,093	\$ 1,052,060

**U.S. Credit Agreement**

The Company is party to a \$479,000 credit agreement with DCFS USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to \$250,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, a non-amortizing term loan

originally funded for \$219,000, and for an additional \$10,000 of availability for letters of credit, through September 30, 2011. The revolving loans bear interest at defined LIBOR plus 1.75%, subject to an incremental 0.50% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, may be prepaid at any time, but then may not be re-borrowed. The Company repaid \$10,000 of this term loan in the first quarter of 2009.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company's domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company's ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to EBITDA. 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 March 31, 2009, the Company was in compliance with all covenants under the U.S. Credit Agreement.

**Table of Contents****PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to the Company's other material indebtedness. Substantially all of the Company's domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of March 31, 2009, \$70,000 of revolving loans, \$199,000 of term loans and \$500 of letters of credit were outstanding under this facility.

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

The Company's subsidiaries in the U.K. (the "U.K. Subsidiaries") are party to an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, as amended, which provides for a funded term loan, a revolving credit agreement and a seasonally adjusted overdraft line of credit (collectively, the "U.K. Credit Agreement") to be used to finance acquisitions, working capital, and general corporate purposes. The U.K. Credit Agreement provides for (1) up to £80,000 in revolving loans through August 31, 2011, which bears interest between a defined LIBOR plus 1.0% and defined LIBOR plus 1.6%, (2) a term loan originally funded for £30,000 which bears interest between 6.29% and 6.89% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a seasonally adjusted overdraft line of credit for up to £20,000 that bears interest at the Bank of England Base Rate plus 1.75%, and matures on August 31, 2011.

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 ratio of earnings before interest and taxes plus rental payments to interest plus rental payments (as defined), a measurement of maximum capital expenditures, and a debt to EBITDA ratio (as defined). 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 March 31, 2009, the U.K. subsidiaries were in compliance with all covenants under the U.K. Credit Agreement.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of the U.K. Subsidiaries. Substantially all of the U.K. Subsidiaries' assets are subject to security interests granted to lenders under the U.K. Credit Agreement. As of March 31, 2009, outstanding loans under the U.K. Credit Agreement amounted to £35,124 (\$50,392), including £15,882 (\$22,786) under the term loan.

***7.75% Senior Subordinated Notes***

On December 7, 2006, the Company issued \$375,000 aggregate principal amount of 7.75% senior subordinated notes (the "7.75% Notes") due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under the Company's credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of the Company's wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. The Company can redeem all or some of the 7.75% Notes at its option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable "make-whole" premium, as defined. In addition, the Company may redeem up to 40% of the 7.75% Notes at specified redemption prices using the proceeds of certain equity offerings before December 15, 2009. Upon certain sales of assets or specific kinds of changes of control, the Company is required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of March 31, 2009, the Company was in compliance with all negative covenants and there were no events of default.

***Senior Subordinated Convertible Notes***

On January 31, 2006, the Company issued \$375,000 aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the "Convertible Notes"). The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by the Company, as discussed below. The Convertible Notes are unsecured senior

subordinated obligations and are subordinate to all future and existing debt under the Company's credit agreements, mortgages and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of the Company's wholly-owned domestic subsidiaries. Those guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of March 31, 2009, the Company was in compliance with all negative covenants and there were no events of default.

Holders of the convertible notes may convert them based on a conversion rate of 42.7796 shares of common stock per \$1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately \$23.38 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of the common stock for twenty of the last thirty trading days in the prior quarter exceeds \$28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

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Upon conversion of the Convertible Notes, for each \$1,000 principal amount of the Convertible Notes, a holder will receive an amount in cash, in lieu of shares of the Company's common stock, equal to the lesser of (i) \$1,000 or (ii) the conversion value, determined in the manner set forth in the related indenture covering the Convertible Notes, of the number of shares of common stock equal to the conversion rate. If the conversion value exceeds \$1,000, the Company will also deliver, at its election, cash, common stock or a combination of cash and common stock with respect to the remaining value deliverable upon conversion.

In the event of a change of control on or before April 6, 2011, the Company will, in certain circumstances, pay a make-whole premium by increasing the conversion rate used in that conversion. In addition, the Company will pay additional cash interest, commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes. On or after April 6, 2011, the Company may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date.

Holders of the Convertible Notes may require the Company to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2011, April 1, 2016 or April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date.

In March 2009, the Company repurchased \$68,740 principal amount of its outstanding Convertible Notes, which had a book value of \$62,831 net of debt discount, for \$51,425. The Company recorded a \$10,429 pre-tax gain in connection with the repurchase. In addition to the write-off of \$5,909 of unamortized debt discount, the Company also wrote off \$672 of unamortized deferred financing costs and incurred \$305 of transaction costs. No cash was allocated to the reacquisition of the equity component because the cash paid was less than the fair value of the liability component prior to extinguishment.

The liability and equity components related to the Convertible Notes consist of the following:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Carrying amount of the equity component	\$ 43,093	\$ 43,093
Principal amount of the liability component	\$ 306,260	\$ 375,000
Unamortized debt discount	26,325	35,872
Net carrying amount of the liability component	\$ 279,935	\$ 339,128

The unamortized debt discount will be amortized as additional interest expense through April 1, 2011, the date the Company expects to be required to redeem the Convertible Notes. Approximately \$12,765 of the unamortized debt discount will be recognized as an increase of interest expense over the next twelve months. The effective interest rate on the liability component is based on an annual rate of 8.25%.

***Mortgage Facilities***

The Company is party to a \$42,400 mortgage facility with respect to certain of our dealership properties that matures on October 1, 2015. The facility bears interest at a defined rate, requires monthly principal and interest payments, and includes the option to extend the term for successive periods of five years up to a maximum term of twenty-five years. In the event the Company exercises its options to extend the term, the interest rate will be renegotiated at each renewal period. The mortgage facility also contains typical events of default, including non-payment of obligations, cross-defaults to the Company's other material indebtedness, certain change of control events, and the loss or sale of

certain franchises operated at the property. Substantially all of the buildings, improvements, fixtures and personal property of the properties under the mortgage facility are subject to security interests granted to the lender. As of March 31, 2009, \$42,022 was outstanding under this facility.

#### **8. Interest Rate Swaps**

The Company uses interest rate swaps to manage interest rate risk associated with the Company's variable rate floor plan debt. The Company is party to interest rate swap agreements through January 7, 2011 pursuant to which the LIBOR portion of \$300,000 of the Company's floating rate floor plan debt was fixed at 3.67%. We may terminate these arrangements at any time subject to the settlement of the then current fair value of the swap arrangements. The swaps are designated as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings. The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. As of March 31, 2009, the Company used Level 2 inputs as described under SFAS No. 157 to estimate the fair value of these contracts to be a liability of \$15,100, of which \$9,026 and \$6,074 are recorded in accrued expenses and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheet. During the three months ended March 31, 2009, the Company recognized a net gain of \$167 related to the interest rate swaps in accumulated other comprehensive loss and reclassified \$2,413 of existing derivative losses from accumulated other comprehensive loss into floor plan interest expense in the Condensed Consolidated Statement of Income. The Company expects approximately \$9,026 associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the interest payments become due. During the three months ended March 31, 2009, the swaps increased the weighted average interest rate on the Company's floor plan borrowings by approximately 0.2%.



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The Company was party to an interest rate swap agreement which expired in January 2008, pursuant to which a notional \$200,000 of its U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of the LIBOR based U.S. floor plan borrowings.

**9. Commitments and Contingent Liabilities**

The Company is involved in litigation which may relate to claims brought by governmental authorities, issues with customers and employment related matters, including class action claims and purported class action claims. As of March 31, 2009, the Company is not party to any legal proceedings, including class action lawsuits, that individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's results of operations, financial condition or cash flows. See MD&A - Forward Looking Statements .

The Company has historically structured its operations so as to minimize ownership of real property. As a result, the Company leases or subleases substantially all of its dealership properties and other facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at the Company's election. Pursuant to the leases for some of the Company's larger facilities, the Company is required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require the Company to post collateral in the form of a letter of credit. A breach of the other lease covenants give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease, as defined.

Since 1999, the Company has sold a number of dealerships to third parties. The Company has at times, as a condition to the sale, remained liable for the lease payments relating to the properties on which those franchises operate, although the buyer of the franchise is required to pay the rent and maintain the property. In the event the buyer does not perform as expected (due to the buyer's financial condition or other factors such as the market performance of the underlying vehicle manufacturer), the Company may not be able to recover amounts owed to it by the buyer. In this event, the Company could be required to fulfill these obligations, which could materially adversely affect its results of operations, financial condition or cash flows.

**10. Equity*****Comprehensive income***

Other comprehensive income includes foreign currency translation gains and losses, as well as changes relating to certain other immaterial items, including: certain defined benefit plans in the U.K., changes in the fair value of interest rate swap agreements, and valuation adjustments relating to certain available for sale securities, each of which has been excluded from net income and reflected in equity. Total comprehensive income is summarized as follows:

	Three Months Ended March 31,	
	2009	2008
Attributable to Penske Automotive Group:		
Net income	\$ 16,282	\$ 31,896
Other comprehensive income:		
Foreign currency translation	2,208	4,060
Other	163	(5,272)
Total attributable to Penske Automotive Group	18,653	30,684
Attributable to the non-controlling interest:		
Net (loss) income	(80)	435

Total comprehensive income	\$	18,573	\$	31,119
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**Table of Contents****PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****11. Segment Information**

The Company's operations are organized by management into operating segments by line of business and geography. The Company has determined it has three reportable operating segments as defined in SFAS No. 131: (i) Retail, consisting of our automotive retail operations, (ii) Distribution, consisting of our distribution of the smart fortwo vehicle, parts and accessories in the U.S. and Puerto Rico and (iii) PAG Investments, consisting of our investments in non-automotive retail operations. The Retail reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships. The individual dealership operations included in the Retail segment have been grouped into five geographic operating segments which are aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). In connection with the addition of PAG Investments, we have reclassified historical amounts to conform to our current segment presentation.

The following table summarizes revenues and income from continuing operations before certain non-recurring items and income taxes, which is the measure by which management allocates resources to its segments and which we refer to as adjusted segment income, for each of our reportable segments. Adjusted segment income excludes the item discussed below in order to enhance the comparability of segment income from period to period.

**Three Months Ended March 31**

	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Revenues					
2009	\$ 2,077,763	\$ 88,631	\$	\$ (8,518)	\$ 2,157,876
2008	3,111,567	75,480		(11,710)	3,175,337
Adjusted segment income					
2009	\$ 8,737	\$ 6,305	\$ 605	\$ (163)	\$ 15,484
2008	46,478	3,947	245	(587)	50,083

The following table reconciles total adjusted segment income to consolidated income from continuing operations before income taxes.

	Three Months Ended March 31,	
	2009	2008
Adjusted segment income	\$ 15,484	\$ 50,083
Gain on debt repurchase	10,429	
Income from continuing operations before income taxes	\$ 25,913	\$ 50,083

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The following tables include consolidating condensed financial information as of March 31, 2009 and December 31, 2008 and for the three month periods ended March 31, 2009 and 2008 for Penske Automotive Group, Inc. (as the issuer of the Convertible Notes and the 7.75% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations or cash flows of these entities on a stand-alone basis.

**CONSOLIDATING CONDENSED BALANCE SHEET****March 31, 2009**

	<b>Total Company</b>	<b>Eliminations</b>	<b>Penske Automotive Group, Inc. (In thousands)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>
Cash and cash equivalents	\$ 11,458	\$	\$	\$ 5,946	\$ 5,512
Accounts receivable, net	312,039	(203,729)	203,729	170,466	141,573
Inventories	1,360,239			883,637	476,602
Other current assets	91,193		722	56,097	34,374
Assets held for sale	8,411			252	8,159
<b>Total current assets</b>	<b>1,783,340</b>	<b>(203,729)</b>	<b>204,451</b>	<b>1,116,398</b>	<b>666,220</b>
Property and equipment, net	666,602		6,503	416,407	243,692
Intangible assets	970,681			571,194	399,487
Equity method investments	285,338		219,307		66,031
Other long-term assets	19,154	(1,316,962)	1,324,724	9,959	1,433
<b>Total assets</b>	<b>\$ 3,725,115</b>	<b>\$ (1,520,691)</b>	<b>\$ 1,754,985</b>	<b>\$ 2,113,958</b>	<b>\$ 1,376,863</b>
Floor plan notes payable	\$ 847,711	\$	\$	\$ 522,567	\$ 325,144
Floor plan notes payable non-trade	389,491			225,375	164,116
Accounts payable	201,798		2,124	76,095	123,579
Accrued expenses	199,085	(203,729)	456	106,139	296,219
Current portion of long-term debt	11,132			979	10,153
Liabilities held for sale	10,592			188	10,404
<b>Total current liabilities</b>	<b>1,659,809</b>	<b>(203,729)</b>	<b>2,580</b>	<b>931,343</b>	<b>929,615</b>
Long-term debt	1,008,093	(113,152)	923,935	43,871	153,439
Other long-term liabilities	228,743			209,418	19,325

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Total liabilities	2,896,645	(316,881)	926,515	1,184,632	1,102,379
Total equity	828,470	(1,203,810)	828,470	929,326	274,484
Total liabilities and equity	\$ 3,725,115	\$ (1,520,691)	\$ 1,754,985	\$ 2,113,958	\$ 1,376,863

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**CONSOLIDATING CONDENSED BALANCE SHEET**  
**December 31, 2008**

	<b>Total Company</b>	<b>Eliminations</b>	<b>Penske Automotive Group, Inc. (In thousands)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>
Cash and cash equivalents	\$ 20,109	\$	\$	\$ 14,060	\$ 6,049
Accounts receivable, net	294,567	(196,465)	196,465	182,582	111,985
Inventories	1,593,267			1,001,571	591,696
Other current assets	88,378		2,711	59,931	25,736
Assets held for sale	9,739			1,700	8,039
<b>Total current assets</b>	<b>2,006,060</b>	<b>(196,465)</b>	<b>199,176</b>	<b>1,259,844</b>	<b>743,505</b>
Property and equipment, net	662,493		6,927	416,277	239,289
Intangible assets	974,649			542,128	432,521
Equity method investments	296,487		227,451		69,036
Other long-term assets	22,460	(1,293,431)	1,300,546	12,169	3,176
<b>Total assets</b>	<b>\$ 3,962,149</b>	<b>\$ (1,489,896)</b>	<b>\$ 1,734,100</b>	<b>\$ 2,230,418</b>	<b>\$ 1,487,527</b>
Floor plan notes payable	\$ 968,873	\$	\$	\$ 659,532	\$ 309,341
Floor plan notes payable non-trade	511,357			268,987	242,370
Accounts payable	178,811		2,183	80,000	96,628
Accrued expenses	196,274	(196,465)	368	94,927	297,444
Current portion of long-term debt	11,305			978	10,327
Liabilities held for sale	13,492			1,460	12,032
<b>Total current liabilities</b>	<b>1,880,112</b>	<b>(196,465)</b>	<b>2,551</b>	<b>1,105,884</b>	<b>968,142</b>
Long-term debt	1,052,060	(138,341)	923,128	44,117	223,156
Other long-term liabilities	221,556			201,691	19,865
<b>Total liabilities</b>	<b>3,153,728</b>	<b>(334,806)</b>	<b>925,679</b>	<b>1,351,692</b>	<b>1,211,163</b>
Total equity	808,421	(1,155,090)	808,421	878,726	276,364
<b>Total liabilities and equity</b>	<b>\$ 3,962,149</b>	<b>\$ (1,489,896)</b>	<b>\$ 1,734,100</b>	<b>\$ 2,230,418</b>	<b>\$ 1,487,527</b>



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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**CONSOLIDATING CONDENSED STATEMENT OF INCOME**  
**Three Months Ended March 31, 2009**

	<b>Total</b>		<b>Penske</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>
	<b>Company</b>	<b>Eliminations</b>	<b>Automotive</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>
			<b>Group,</b>		
			<b>Inc.</b>		
			<b>(In thousands)</b>		
Revenues	\$ 2,157,876	\$	\$	\$ 1,277,186	\$ 880,690
Cost of sales	1,789,585			1,051,191	738,394
Gross profit	368,291			225,995	142,296
Selling, general, and administrative expenses	313,002		3,318	198,147	111,537
Depreciation and amortization	12,872		290	8,303	4,279
Operating income	42,417		(3,608)	19,545	26,480
Floor plan interest expense	(9,515)			(6,271)	(3,244)
Other interest expense	(14,494)		(11,472)	(31)	(2,991)
Debt discount amortization	(3,638)		(3,638)		
Equity in income of affiliates	714		583		131
Gain on debt repurchase	10,429		10,429		
Equity in earnings of subsidiaries		(33,699)	33,699		
Income from continuing operations before income taxes	25,913	(33,699)	25,993	13,243	20,376
Income taxes	(9,717)	12,598	(9,717)	(6,974)	(5,624)
Income from continuing operations	16,196	(21,101)	16,276	6,269	14,752
Income (loss) from discontinued operations, net of tax	6	(6)	6	(129)	135
Net income	16,202	(21,107)	16,282	6,140	14,887
Less: Loss attributable to the non-controlling interest	(80)				(80)
	\$ 16,282	\$ (21,107)	\$ 16,282	\$ 6,140	\$ 14,967



Net income attributable to  
Penske Automotive Group  
common stockholders

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**CONSOLIDATING CONDENSED STATEMENT OF INCOME**  
**Three Months Ended March 31, 2008**

	<b>Total</b>		<b>Penske</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>
	<b>Company</b>	<b>Eliminations</b>	<b>Automotive</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>
			<b>Group,</b>		
			<b>Inc.</b>		
			<b>(In thousands)</b>		
Revenues	\$ 3,175,337	\$	\$	\$ 1,727,807	\$ 1,447,530
Cost of sales	2,686,850			1,454,186	1,232,664
Gross profit	488,487			273,621	214,866
Selling, general, and administrative expenses	394,072		3,851	230,466	159,755
Depreciation and amortization	13,291		363	7,187	5,741
Operating income	81,124		(4,214)	35,968	49,370
Floor plan interest expense	(17,026)			(9,422)	(7,604)
Other interest expense	(11,911)		(7,044)	(2)	(4,865)
Debt discount amortization	(3,496)		(3,496)		
Equity in income of affiliates	1,392				1,392
Equity in earnings of subsidiaries		(64,402)	64,402		
Income from continuing operations before income taxes	50,083	(64,402)	49,648	26,544	38,293
Income taxes	(17,809)	23,101	(17,809)	(11,825)	(11,276)
Income from continuing operations	32,274	(41,301)	31,839	14,719	27,017
Income (loss) from discontinued operations, net of tax	57	(57)	57	(424)	481
Net income	32,331	(41,358)	31,896	14,295	27,498
Less: Income attributable to the non-controlling interest	435				435
Net income attributable to Penske Automotive Group	\$ 31,896	\$ (41,358)	\$ 31,896	\$ 14,295	\$ 27,063

common stockholders

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Three Months Ended March 31, 2009**

	<b>Total</b>	<b>Penske</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>
	<b>Company</b>	<b>Automotive</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>
		<b>Group,</b>		
		<b>Inc.</b>		
		<b>(In thousands)</b>		
Net cash from continuing operating activities	\$ 175,865	\$ (20,195)	\$ 28,994	\$ 167,066
Investing activities:				
Purchase of property and equipment	(27,529)	134	(19,018)	(8,645)
Dealership acquisitions, net	(11,476)		(3,556)	(7,920)
Other	12,679	11,485		1,194
Net cash from continuing investing activities	(26,326)	11,619	(22,574)	(15,371)
Financing activities:				
Proceeds from borrowings under U.S. credit agreement revolving credit line	147,000	147,000		
Repayments under U.S. credit agreement revolving credit line	(77,000)	(77,000)		
Repayments under U.S. credit agreement term loan	(10,000)	(10,000)		
Repurchase 3.5% senior subordinated convertible notes	(51,425)	(51,425)		
Net (repayments) borrowings of long-term debt	(43,333)		28,750	(72,083)
Net repayments of floor plan notes payable non-trade	(121,866)		(43,612)	(78,254)
Distributions from (to) parent			146	(146)
Net cash from continuing financing activities	(156,624)	8,575	(14,716)	(150,483)
Net cash from discontinued operations	(1,566)		182	(1,748)
Net change in cash and cash equivalents	(8,651)		(8,114)	(537)
Cash and cash equivalents, beginning of period	20,109		14,060	6,049
Cash and cash equivalents, end of period	\$ 11,458	\$	\$ 5,946	\$ 5,512



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**PENSKE AUTOMOTIVE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Three Months Ended March 31, 2008**

	<b>Total</b>	<b>Penske</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>
	<b>Company</b>	<b>Automotive</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>
		<b>Group,</b>		
		<b>Inc.</b>		
		<b>(In thousands)</b>		
Net cash from continuing operating activities	\$ 36,393	\$ 137	\$ 39,368	\$ (3,112)
Investing activities:				
Purchase of property and equipment	(47,154)	(137)	(28,688)	(18,329)
Proceeds from sale leaseback transactions	3,676		3,676	
Other	(1,500)			(1,500)
Net cash from continuing investing activities	(44,978)	(137)	(25,012)	(19,829)
Financing activities:				
Net (repayments) borrowings of long-term debt	(226)	8,550	(12,105)	3,329
Net borrowings (repayments) of floor plan notes payable non-trade	24,632		(1,217)	25,849
Distributions from (to) parent			1,821	(1,821)
Dividends	(8,550)	(8,550)		
Net cash from continuing financing activities	15,856		(11,501)	27,357
Net cash from discontinued operations	(234)		(4,522)	4,288
Net change in cash and cash equivalents	7,037		(1,667)	8,704
Cash and cash equivalents, beginning of period	14,798		3,108	11,690
Cash and cash equivalents, end of period	\$ 21,835	\$	\$ 1,441	\$ 20,394

**Table of Contents****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, including those discussed in Forward Looking Statements. We have acquired and initiated a number of businesses since inception. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through March 31, 2009 in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets .*

**Overview**

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of March 31, 2009, we owned and operated 157 franchises in the U.S. and 152 franchises outside of the U.S., primarily in the United Kingdom. We offer a full range of vehicle brands with 95% of our total retail vehicle revenue in 2009 generated from brands of non-U.S. based manufacturers and sales relating to premium brands, such as Audi, BMW, Cadillac and Porsche, representing 65% of our total retail vehicle revenue. Each of our dealerships offers a wide selection of new and used vehicles for sale. 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. We are also diversified geographically, with 64% of our total revenues in 2009 generated from operations in the U.S. and 36% generated from our operations outside the U.S. (predominately in the U.K.).

We are also, through smart USA Distributor, LLC ( smart USA ), a wholly-owned subsidiary, the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico. The smart fortwo is manufactured by Mercedes-Benz Cars and is a Daimler brand. This technologically advanced vehicle achieves 40-plus miles per gallon on the highway and is an ultra-low emissions vehicle as certified by the State of California Air Resources Board. smart USA has certified a network of 75 smart dealerships in 35 states, of which eight are owned and operated by us. The smart fortwo offers five different versions, the *pure*, *passion coupe*, *passion cabriolet*, *BRABUS coupe* and *BRABUS cabriolet*, with base prices ranging from \$11,990 to \$20,990. We currently expect to distribute more than 20,000 smart fortwo vehicles in 2009.

In June 2008, we acquired a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading global transportation services provider, from subsidiaries of General Electric Capital Corporation (collectively, GE Capital ) in exchange for \$219.0 million. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital. We expect to receive annual pro-rata cash distributions of partnership profits and realize U.S. cash tax savings from this investment.

**Outlook**

We have experienced reduced consumer confidence and spending in the markets in which we operate, which we believe reduced customer traffic in our dealerships, particularly since September 2008. We expect our business to remain significantly impacted by economic conditions in 2009. Market conditions have also negatively impacted vehicle manufacturers. In particular, the U.S. based automotive manufacturers have experienced critical operational and financial distress, due in part to shrinking market share in the U.S. and the recent limitation in worldwide credit capacity. In 2008 and early 2009, certain U.S. based manufacturers received support from the U.S. government in the form of loans and one manufacturer filed for bankruptcy in April. Currently, it remains in doubt whether continued support will be given to certain U.S. based automotive brands. While we have limited exposure to these manufacturers as a percentage of our overall revenue, a restructuring of any one of them may lead to significant disruption to the

automotive supply chain and to our dealerships that represent those manufacturers, and could possibly also impact other automotive manufacturers and suppliers. We cannot reasonably predict the impact to the automotive retail environment of any such disruption.

In addition, turbulence in worldwide credit markets has resulted in an increase in the cost of capital for the captive finance subsidiaries that provide us financing for our inventory procurement. Interest rates under our inventory borrowing arrangements are variable and based on changes in the prime rate, defined LIBOR or the Euro Interbank Offer Rate (the base rate), plus a spread that varies by lender. While the base rate under these arrangements are generally lower due to government actions designed to spur liquidity and bank lending activities, certain of our lenders raised the spread charged to us, or have established minimum lending rates. These increases became effective in late 2008 and early 2009, and varied between 50 and 250 basis points. Due to these relative increases, we do not expect to realize the full benefit of the lower base rates expected in 2009 compared to 2008. The increases levied by lenders to date would result in \$5.8 million of incremental floorplan interest expense based on average outstanding balances during 2008.



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In response to the challenging operating environment, we have undertaken significant cost saving initiatives. In 2008, we eliminated approximately 1,400 positions, representing approximately 10.0% of our worldwide workforce, and amended pay plans for certain other employees to better align our workforce for current business levels and to reduce compensation expense generally. Other cost curtailment initiatives include a reduction in advertising activities, a suspension of matching contributions to our defined contribution plans, and the suspension of our quarterly cash dividends to stockholders. We will continue to monitor the business climate, and take such further actions as needed to respond to business conditions.

**Operating Overview**

New and used vehicle revenues include sales to retail customers and to leasing companies providing consumer automobile leasing. We generate finance and insurance revenues from sales of third-party extended service contracts, sales of third-party insurance policies, fees for facilitating the sale of third-party finance and lease contracts and the sale of certain other products. Service and parts revenues include fees paid for repair, maintenance and collision services, and the sale of replacement parts and the sale of aftermarket accessories. During the three months ended March 31, 2009, we experienced a year over year decline on a same store basis of new and used vehicle unit sales, coupled with a corresponding decrease in finance and insurance revenues. Our same store service and parts business also experienced a decline during this period, although less so than vehicle sales. We expect a continuation of this difficult operating environment throughout 2009.

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, service and parts transactions, and the distribution of the smart fortwo. Our gross profit 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 customer demand, consumer sentiment, general economic conditions, seasonality, weather, credit availability, fuel prices and manufacturers' advertising and incentives may impact the mix of our revenues, and therefore influence our gross profit margin. During the three months ended March 31, 2009, we experienced year over year margin declines relating to our new vehicle sales and service and parts operations, and an increase in used vehicle sales margins. We expect such margin pressure to continue throughout 2009.

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 we believe 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. Our selling, general, and administrative expenses for compensation and advertising have decreased during the three months ended March 31, 2009, due in part to lower vehicle sales volumes, coupled with the cost savings initiatives outlined above. Our rent expense is expected to grow as a result of cost of living indexes outlined in our lease agreements. As outlined in Outlook above, we will continue to monitor the business climate, and take such further actions as needed to respond to business conditions. Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing. The cost of our variable rate indebtedness is typically based on benchmark lending rates, which are based in large part upon national inter-bank lending rates set by local governments. During the latter part of 2008, such benchmark rates were significantly reduced as a result of government actions designed to spur liquidity and bank lending activities. As a result, our cost of capital on variable rate indebtedness has declined during the first quarter 2009; however, the significance of this decrease is limited somewhat by the increases in rate spreads being charged by our vehicle finance partners outlined in Outlook above. Equity in earnings of affiliates represents our share of the earnings relating to investments in various joint ventures and other non-consolidated investments, notably PTL. It is our expectation that difficult operating conditions outlined above will similarly impact these businesses throughout 2009.

The future success of our business will likely be dependent on, among other things, general economic and industry conditions, 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, the success of our distribution of the smart fortwo, and the return realized from our

investments in various joint ventures and other non-consolidated investments, notably PTL. See Forward-Looking Statements.

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### **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 judgments. Such judgments influence the assets, liabilities, revenues and expenses recognized 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.

The 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 revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under various manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. During the three months ended March 31, 2009 and 2008, we earned \$67.8 million and \$85.3 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$66.3 million and \$83.5 million was recorded as a reduction of cost of sales.

##### ***Finance and Insurance Sales***

Subsequent to the sale of a vehicle to a customer, we sell our installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate 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.

#### ***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, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in business combinations. We believe the franchise value of our dealerships have an indefinite useful 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 by us without substantial cost; and

Our history shows that manufacturers have not terminated our franchise agreements.

#### ***Impairment Testing***

Franchise value impairment is assessed as of October 1 every year and upon the occurrence of an indicator of impairment through a comparison of its carrying amounts and estimated fair values. An indicator of impairment exists if the carrying value of a franchise exceeds its estimated fair value and an impairment loss may be recognized up to that excess. We also evaluate our franchises in connection with the annual impairment testing to determine whether

events and circumstances continue to support its assessment that the franchise has an indefinite life. Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. We have determined that the dealerships in each of our operating segments within the Retail reportable segment, which are organized by geography, are components that are aggregated into five reporting units as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). Accordingly, our operating segments are also considered our reporting units for the purpose of goodwill impairment testing relating to our Retail segment. There is no goodwill recorded in our Distribution or PAG Investments reportable segments. An indicator of goodwill impairment exists if the carrying amount of the reporting unit, including goodwill, is determined to exceed its estimated fair value. If an indication of goodwill impairment exists, an analysis reflecting the allocation of the fair value of the reporting unit to all assets and liabilities, including previously unrecognized intangible assets, is performed. The impairment is measured by comparing the implied fair value of the reporting unit goodwill with its carrying amount, and an impairment loss may be recognized up to that excess.

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The fair values of franchise rights and goodwill are determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, residual values and our cost of capital.

***Investments***

Investments include marketable securities and investments in businesses accounted for under the equity method. A majority of our investments are in joint ventures 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.

Investments in marketable securities held by us are typically classified as available for sale and are stated at fair value, determined by the use of Level 1 inputs as described under SFAS No. 157, on our balance sheet with unrealized gains and losses included in accumulated other comprehensive income, a separate component of stockholders' equity.

The net book value of our investments was \$285.3 million and \$297.8 million as of March 31, 2009 and December 31, 2008, respectively. Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment were to be identified, management would estimate the fair value of the investment using a discounted cash flow approach, which would include assumptions relating to revenue and profitability growth, profit margins, residual values and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments' carrying value to fair value.

***Self-Insurance***

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, auto physical damage insurance, property insurance, employment practices liability insurance, directors' and officers' insurance and employee medical benefits in the U.S. 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 loss limits for certain individual claims and/or insurance periods. Losses, if any, above such pre-determined loss 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. Aggregate reserves relating to retained risk were \$22.3 million and \$19.2 million as of March 31, 2009 and December 31, 2008, respectively.

Changes in the reserve estimate during 2009 relate primarily to the inclusion of additional participants in our employee medical benefit plans and reserves for current year activity in our general liability and workers' compensation programs.

***Income Taxes***

Tax regulations may require items to be included in our tax return at different times than the items are reflected in our financial statements. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as the timing of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that will be used as a tax deduction or credit in our tax return in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax return that have not yet been recognized as 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. A valuation allowance of \$3.4 million has been recorded relating to net operating losses and credit carryforwards in the U.S. based on our determination that it is more likely than not that they will not be utilized.

***Classification of Franchises in Continuing and Discontinued Operations***

We classify the results of our operations in our consolidated financial statements based on the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, which requires judgment in determining whether a franchise will be reported within continuing or discontinued operations. Such judgments include whether a franchise will be divested, the period required to complete the divestiture, and the likelihood of changes to the divestiture plans. If we determine that a franchise should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, our consolidated financial statements for prior periods are revised to reflect such reclassification.



**Table of Contents*****New Accounting Pronouncements***

See Note 1 of the Notes to the Consolidated Condensed Financial Statements for a summary of the accounting changes impacting our operating results, financial position and 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 acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2007, the results of the acquired entity would be included in annual same store comparisons beginning with the year ended December 31, 2009 and in quarterly same store comparisons beginning with the quarter ended June 30, 2008.

***Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008 (dollars in millions, except per unit amounts)***

Our results for the three months ended March 31, 2009 include a gain of \$10.4 million (\$6.5 million after-tax), or \$0.07 per share, relating to the repurchase of \$68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes.

**New Vehicle Data**

	<b>2009 vs. 2008</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
New retail unit sales	30,668	45,188	(14,520)	(32.1%)
Same store new retail unit sales	28,963	44,645	(15,682)	(35.1%)
New retail sales revenue	\$ 972.1	\$ 1,626.0	\$ (653.9)	(40.2%)
Same store new retail sales revenue	\$ 918.2	\$ 1,607.0	\$ (688.8)	(42.9%)
New retail sales revenue per unit	\$ 31,698	\$ 35,982	\$ (4,284)	(11.9%)
Same store new retail sales revenue per unit	\$ 31,703	\$ 35,994	\$ (4,291)	(11.9%)
Gross profit new	\$ 71.4	\$ 136.6	\$ (65.2)	(47.7%)
Same store gross profit new	\$ 67.0	\$ 134.9	\$ (67.9)	(50.3%)
Average gross profit per new vehicle retailed	\$ 2,327	\$ 3,023	\$ (696)	(23.0%)
Same store average gross profit per new vehicle retailed	\$ 2,315	\$ 3,021	\$ (706)	(23.4%)
Gross margin % new	7.3%	8.4%	(1.1%)	(13.1%)
Same store gross margin % new	7.3%	8.4%	(1.1%)	(13.1%)

***Units***

Retail unit sales of new vehicles decreased 14,520 units, or 32.1%, from 2008 to 2009. The decrease is due a 15,682 unit, or 35.1%, decrease in same store retail unit sales during the period, offset by a 1,162 unit increase from net dealership acquisitions. The same store decrease was due primarily to unit sales decreases in our volume foreign brand stores in the U.S. and premium and domestic brand stores in the U.S. and U.K.

***Revenues***

New vehicle retail sales revenue decreased \$653.9 million, or 40.2%, from 2008 to 2009. The decrease is due to a \$688.8 million, or 42.9%, decrease in same store revenues, offset by a \$34.9 million increase from net dealership acquisitions. The same store revenue decrease is due primarily to the 35.1% decrease in retail unit sales, which reduced revenue by \$564.5 million, coupled with the \$4,291, or 11.9%, decrease in average selling prices per unit, which decreased revenue by \$124.3 million.

***Gross Profit***

Retail gross profit from new vehicle sales decreased \$65.2 million, or 47.7%, from 2008 to 2009. The decrease is due to a \$67.9 million, or 50.3%, decrease in same store gross profit, offset by a \$2.7 million increase from net dealership acquisitions. The same store decrease is due primarily to the 35.1% decrease in retail unit sales, which reduced gross profit by \$47.4 million, coupled with the \$706, or 23.4%, decrease in the average gross profit per new vehicle retailed,

which decreased gross profit by \$20.5 million.



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	<b>2009 vs. 2008</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Used retail unit sales	26,811	26,402	409	1.5%
Same store used retail unit sales	25,113	26,208	(1,095)	(4.2%)
Used retail sales revenue	\$ 614.6	\$ 794.1	\$ (179.5)	(22.6%)
Same store used retail sales revenue	\$ 574.7	\$ 788.9	\$ (214.2)	(27.2%)
Used retail sales revenue per unit	\$ 22,925	\$ 30,076	\$ (7,151)	(23.8%)
Same store used retail sales revenue per unit	\$ 22,883	\$ 30,103	\$ (7,220)	(24.0%)
Gross profit used	\$ 56.0	\$ 65.8	\$ (9.8)	(14.9%)
Same store gross profit used	\$ 52.1	\$ 65.3	\$ (13.2)	(20.2%)
Average gross profit per used vehicle retailed	\$ 2,088	\$ 2,491	\$ (403)	(16.2%)
Same store average gross profit per used vehicle retailed	\$ 2,074	\$ 2,491	\$ (417)	(16.7%)
Gross margin % used	9.1%	8.3%	0.8%	9.6%
Same store gross margin % used	9.1%	8.3%	0.8%	9.6%

**Units**

Retail unit sales of used vehicles increased 409 units, or 1.5%, from 2008 to 2009. The increase is due to a 1,504 unit increase from net dealership acquisitions, offset by a 1,095 unit, or 4.2%, decrease in same store retail unit sales. The same store decrease was due primarily to unit sales decreases in volume foreign and domestic brand stores in the U.S., offset by increases in unit sales at our premium brand stores in the U.S. and U.K. We believe our sales of used vehicle units were influenced by the reduction in traffic into our stores resulting from the significant decline in consumer confidence offset by customers choosing used vehicles as a less expensive alternative to new vehicles due to the challenging economic climate.

**Revenues**

Used vehicle retail sales revenue decreased \$179.5 million, or 22.6%, from 2008 to 2009. The decrease is due to a \$214.2 million, or 27.2%, decrease in same store revenues, offset by a \$34.7 million increase from net dealership acquisitions. The same store revenue decrease is due to the \$7,220, or 24.0% decrease in comparative average selling prices per vehicle, which decreased revenue by \$181.3 million, coupled with the 4.2% decrease in same store retail unit sales which decreased revenue by \$32.9 million.

**Gross Profit**

Retail gross profit from used vehicle sales decreased \$9.8 million, or 14.9%, from 2008 to 2009. The decrease is due to a \$13.2 million, or 20.2%, decrease in same store gross profit, offset by a \$3.4 million increase from net dealership acquisitions. The decrease in same store gross profit is due to the \$417, or 16.7%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by \$10.5 million, coupled with the 4.2% decrease in used retail unit sales, which decreased gross profit by \$2.7 million.

**Finance and Insurance Data**

	<b>2009 vs. 2008</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Finance and insurance revenue	\$ 48.4	\$ 73.9	\$ (25.5)	(34.5%)
Same store finance and insurance revenue	\$ 46.3	\$ 73.2	\$ (26.9)	(36.7%)
Finance and insurance revenue per unit	\$ 842	\$ 1,032	\$ (190)	(18.4%)
Same store finance and insurance revenue per unit	\$ 857	\$ 1,033	\$ (176)	(17.0%)

Finance and insurance revenue decreased \$25.5 million, or 34.5%, from 2008 to 2009. The decrease is due to a \$26.9 million, or 36.7%, decrease in same store revenues during the period, offset by a \$1.4 million increase from net dealership acquisitions. The same store revenue decrease is due to the 23.7% decrease in retail unit sales which decreased revenue by \$17.4 million, coupled with the \$176, or 17.0%, decrease in comparative average finance and

insurance revenue per unit which decreased revenue by \$9.5 million. The \$176 decrease in comparative average finance and insurance revenue per unit retailed is due primarily to decreased sales penetration of certain products which we believe was brought about by the challenging economic conditions.

**Table of Contents****Service and Parts Data**

	<b>2009 vs. 2008</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Service and parts revenue	\$ 327.6	\$ 359.1	\$ (31.5)	(8.8%)
Same store service and parts revenue	\$ 310.4	\$ 353.4	\$ (43.0)	(12.2%)
Gross profit	\$ 177.1	\$ 201.3	\$ (24.2)	(12.0%)
Same store gross profit	\$ 168.2	\$ 198.0	\$ (29.8)	(15.1%)
Gross margin	54.1%	56.0%	(1.9%)	(3.4%)
Same store gross margin	54.2%	56.0%	(1.8%)	(3.2%)

**Revenues**

Service and parts revenue decreased \$31.5 million, or 8.8%, from 2008 to 2009. The decrease is due to a \$43.0 million, or 12.2%, decrease in same store revenues during the period, offset by an \$11.5 million increase from net dealership acquisitions. The same store decrease largely resulted from a decline in pre-inspection and delivery work due to the 35.1% decrease in same store new vehicle retail unit sales.

**Gross Profit**

Service and parts gross profit decreased \$24.2 million, or 12.0%, from 2008 to 2009. The decrease is due to a \$29.8 million, or 15.1%, decrease in same store gross profit during the period, offset by a \$5.6 million increase from net dealership acquisitions. The same store gross profit decrease is due to the \$43.0 million, or 12.2%, decrease in same store revenues, which decreased gross profit by \$23.3 million, coupled with a 1.8% decrease in gross margin, which decreased gross profit by \$6.5 million. The decline in gross margin on parts, service and collision repairs in 2009 compared to the prior year was due in part to a higher proportion of lower margin sales such as standard oil changes and tire sales.

**Distribution**

smart USA, a wholly-owned subsidiary, began distributing the smart fortwo vehicle in the U.S. in 2008. Distribution units wholesaled during the quarter increased 801 units, or 16.3%, from 4,913 during the three months ended March 31, 2008 to 5,714 during the three months ended March 31, 2009. Total distribution segment revenue increased \$13.1 million, or 17.4%, from \$75.5 million during the three months ended 2008 to \$88.6 million during the three months ended 2009. Segment gross profit, which includes gross profit on vehicle and parts sales, totaled \$12.0 million and \$10.7 million during the three months ended March 31, 2009 and 2008, respectively.

**Selling, General and Administrative**

Selling, general and administrative expenses ( SG&A ) decreased \$81.1 million, or 20.6%, from \$394.1 million to \$313.0 million. The aggregate decrease is due primarily to a \$90.3 million, or 23.3%, decrease in same store SG&A, offset by a \$9.2 million increase from net dealership acquisitions. The decrease in same store SG&A is due to (1) a net decrease in variable selling expenses, including decreases in variable compensation, as a result of the 29.2% decrease in same store retail gross profit versus the prior year and (2) other cost savings initiatives discussed above under Outlook, offset by (1) increased rent and other costs relating to our ongoing facility improvement and expansion programs. SG&A expenses increased as a percentage of gross profit from 80.7% to 85.0%.

**Depreciation and Amortization**

Depreciation and amortization decreased \$0.4 million, or 3.2%, from \$13.3 million to \$12.9 million. The decrease is due to a \$0.6 million, or 4.4%, decrease in same store depreciation and amortization, offset by a \$0.2 million increase from net dealership acquisitions.

**Floor Plan Interest Expense**

Floor plan interest expense, including the impact of swap transactions, decreased \$7.5 million, or 44.1%, from \$17.0 million to \$9.5 million. The decrease is due to a \$7.6 million, or 45.5%, decrease in same store floor plan interest expense, offset by a \$0.1 million increase from net dealership acquisitions. The same store decrease is due in large part to decreases in average outstanding floor plan balances, coupled with decreases in interest rates charged to us. While the base rate under these arrangements were generally lower in 2009 versus 2008 in part due to lower benchmark lending rates as a result of government actions designed to spur liquidity and bank lending activities,

certain of our lenders reacted to increases in their cost of capital by raising the spread charged to us or by establishing minimum lending rates. Due to these relative increases, we do not expect to realize the full benefit of the lower base rates in 2009 compared to 2008.

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### **Other Interest Expense**

Other interest expense increased \$2.6 million, or 21.7%, from \$11.9 million to \$14.5 million. The increase is due primarily to an increase in average outstanding indebtedness in 2009 relating from our investment in PTL, offset by decreases in benchmark lending rates.

### **Debt Discount Amortization**

We adopted FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) effective January 1, 2009. Pursuant to FSP APB 14-1, we were required to account separately for the debt and equity components of our 3.5% Senior Subordinated Convertible Notes. The value ascribed to the debt component was determined using a fair value methodology, with the residual representing the equity component. The equity component was recorded as an increase in equity, with the debt discount being amortized as additional interest expense over the expected life of the instrument. We have applied the provisions of this standard retrospectively to all periods presented herein. Debt discount amortization increased \$0.1 million, from \$3.5 million to \$3.6 million, as a result of the requirement to amortize the debt discount over the expected life of the obligation so as to maintain a consistent effective interest rate.

### **Equity in Earnings of Affiliates**

Equity in earnings of affiliates decreased \$0.7 million, from \$1.4 million to \$0.7 million. The decrease from 2008 to 2009 is due primarily to the impact of the difficult operating conditions outlined above on these businesses.

### **Gain on Debt Repurchase**

In March 2009, we repurchased \$68.7 million principal amount of our outstanding Convertible Notes, which had a book value of \$62.8 million net of debt discount, for \$51.4 million. We recorded a \$10.4 million pre-tax gain in connection with the repurchase. In addition to the write-off of \$5.9 million of unamortized debt discount we also wrote off \$0.7 million of unamortized deferred financing costs and incurred \$0.3 million of transaction costs. No cash was allocated to the reacquisition of the equity component because the cash paid was less than the fair value of the liability component prior to extinguishment.

### **Income Taxes**

Income taxes decreased \$8.1 million, or 45.4%, from \$17.8 million to \$9.7 million. The decrease from 2008 to 2009 is due to the decrease in our pre-tax income versus the prior year, offset by an increase in our overall effective income tax 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 debt service, and potentially for dividends and repurchases of outstanding securities under the program discussed below. 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, mortgages, or the issuance of equity securities. As of March 31, 2009, we had working capital of \$123.5 million, including \$11.5 million of cash, available to fund our operations and capital commitments. In addition, we had \$180.0 million and £80.8 million (\$115.9 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, each of which is discussed below.

We have historically expanded our retail automotive operations through organic growth and the acquisition of retail automotive dealerships. In addition, one of our subsidiaries is the exclusive distributor of smart fortwo vehicles in the U.S. and Puerto Rico. We believe that cash flow from operations 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 at least the next twelve months. To the extent we pursue additional significant acquisitions, other expansion opportunities, significant repurchases of our outstanding securities, or refinance or repay existing debt, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings which sources of funds may not necessarily be available on terms acceptable to us, if at all. In addition, our liquidity could be negatively impacted in the event we fail to comply with the covenants under our various financing and operating agreements or in the event our floor plan financing is withdrawn. For a discussion of these possible events, see the discussion below with respect to our financing

agreements.

***Share Repurchases and Dividends***

Our board of directors has approved a repurchase program for our outstanding securities with a remaining authority of \$44.9 million. During the first quarter of 2009, we repurchased \$68.7 million aggregate principal amount of 3.5% senior subordinated convertible notes for \$51.4 million under this program. We may, from time to time as market conditions warrant, purchase our outstanding common stock, debt or convertible debt on the open market and in privately negotiated transactions and, potentially, via a tender offer or a pre-arranged trading plan. We have historically funded any repurchases through cash flow from operations and borrowings under our U.S. credit facility. The decision to make repurchases will be based on factors such as the market price of the relevant security versus our view of its intrinsic value, the potential impact of such repurchases on our capital structure, and alternative uses of capital, such as for strategic investments in our current businesses, as well as any then-existing limits imposed by our finance agreements and securities trading policy.

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We paid dividends of nine cents per share on March 3, 2008, June 2, 2008, September 1, 2008 and December 1, 2008. In February 2009, we announced the suspension of our quarterly cash dividend. 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.

***Inventory Financing***

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders, including the captive finance companies associated with the U.S. based automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, we have not historically been required to make loan principal repayments prior to the sale of the vehicles financed. 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 and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles financed or the stated maturity. The floor plan agreements grant a security interest in substantially all of the assets of our dealership subsidiaries and in the U.S. are guaranteed by our parent company. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined LIBOR or the Euro Interbank offer Rate. We receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing. See Results of Operations Floor Plan Interest Expense for a discussion of the impact of challenging credit conditions on the rates charged to us under these agreements.

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

We are party to a \$479.0 million credit agreement with DCFS USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. credit agreement), which provides for up to \$250.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan originally funded for \$219.0 million, and for an additional \$10.0 million of availability for letters of credit, through September 30, 2011. The revolving loans bear interest at a defined LIBOR plus 1.75%, subject to an incremental 0.50% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, may be prepaid at any time, but then may not be re-borrowed. We repaid \$10.0 million of this term loan in the first quarter of 2009.

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, pay dividends, 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 and a ratio of debt to EBITDA. 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 March 31, 2009, we were in compliance with all covenants under the U.S. credit agreement, and we believe we will remain in compliance with such covenants for the next twelve months. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments. However, in the event of continued weakness in the economy and the automotive sector in particular, we may need to seek covenant relief. 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 are subject to security interests granted to lenders under the U.S. credit agreement. As of March 31, 2009, \$70.0 million of revolving loans, \$199.0 million of term loans and \$0.5 million of letters of credit were outstanding under this agreement.

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

Our subsidiaries in the U.K. (the U.K. subsidiaries) are party to an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a funded term loan, a revolving credit agreement and a seasonally adjusted overdraft line of credit (collectively, the U.K. credit agreement) to be used to finance acquisitions,

working capital, and general corporate purposes. The U.K. credit agreement provides for (1) up to £80.0 million in revolving loans through August 31, 2011, which bears interest between a defined LIBOR plus 1.0% and defined LIBOR plus 1.6%, (2) a term loan originally funded for £30.0 million which bears interest between 6.29% and 6.89% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a seasonally adjusted overdraft line of credit for up to £20.0 million that bears interest at the Bank of England Base Rate plus 1.75%, and matures on August 31, 2011.



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The U.K. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our 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, our U.K. subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. credit agreement, including: a ratio of earnings before interest and taxes plus rental payments to interest plus rental payments (as defined), a measurement of maximum capital expenditures, and a debt to EBITDA ratio (as defined). 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 March 31, 2009, our U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement and we believe they will remain in compliance with such covenants for the next twelve months. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K. However, in the event of continued weakness in the economy and the automotive sector in particular, we may need to seek covenant relief. See *Forward Looking Statements* .

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries' assets are subject to security interests granted to lenders under the U.K. credit agreement. As of March 31, 2009, outstanding loans under the U.K. credit agreement amounted to £35.1 million (\$50.4 million), including £15.9 million (\$22.8 million) under the term loan.

***7.75% Senior Subordinated Notes***

On December 7, 2006 we issued \$375.0 million aggregate principal amount of 7.75% senior subordinated notes due 2016 (the *7.75% Notes* ). The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under our credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. We can redeem all or some of the 7.75% Notes at our option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable *make-whole* premium, as defined. In addition, we may redeem up to 40% of the 7.75% Notes at specified redemption prices using the proceeds of certain equity offerings before December 15, 2009. Upon certain sales of assets or specific kinds of changes of control, we are required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of March 31, 2009, we were in compliance with all negative covenants and there were no events of default.

***Senior Subordinated Convertible Notes***

On January 31, 2006, we issued \$375.0 million aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the *Convertible Notes* ). The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by us, as discussed below. The Convertible Notes are unsecured senior subordinated obligations and are subordinate to all future and existing debt under our credit agreements, mortgages and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of our wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of March 31, 2009, we were in compliance with all negative covenants and there were no events of default.

Holders of the convertible notes may convert them based on a conversion rate of 42.7796 shares of our common stock per \$1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately \$23.38 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of our common stock for twenty of the last thirty trading days in the prior quarter exceeds \$28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of our common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

Upon conversion of the Convertible Notes, for each \$1,000 principal amount of the Convertible Notes, a holder will receive an amount in cash, in lieu of shares of our common stock, equal to the lesser of (i) \$1,000 or (ii) the conversion value, determined in the manner set forth in the indenture covering the Convertible Notes, of the number of shares of common stock equal to the conversion rate. If the conversion value exceeds \$1,000, we will also deliver, at our election, cash, common stock or a combination of cash and common stock with respect to the remaining value deliverable upon conversion.

In the event of a conversion due to a change of control on or before April 6, 2011, we will, in certain circumstances, pay a make-whole premium by increasing the conversion rate used in that conversion. In addition, we will pay additional cash interest commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes. On or after April 6, 2011, we may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date.

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Holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on April 1, 2011, April 1, 2016 or April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date. Because of this feature, we currently expect to be required to redeem the Convertible Notes in April 2011.

In March 2009, we repurchased \$68.7 million principal amount of our outstanding Convertible Notes, which had a book value of \$62.8 million net of debt discount, for \$51.4 million. We recorded a \$10.4 million pre-tax gain in connection with the repurchase. In addition to the write-off of \$5.9 million of unamortized debt discount we also wrote off \$0.7 million of unamortized deferred financing costs, and \$0.3 million of transaction costs. As of March 31, 2009, \$306.3 million principal amount of the Convertible Notes were outstanding.

***Mortgage Facilities***

We are party to a \$42.4 million mortgage facility with respect to certain of our dealership properties that matures on October 1, 2015. The facility bears interest at a defined rate, requires monthly principal and interest payments, and includes the option to extend the term for successive periods of five years up to a maximum term of twenty-five years. In the event we exercise our options to extend the term, the interest rate will be renegotiated at each renewal period. The mortgage facility also contains typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and loss or sale of certain franchises operated at the property. Substantially all of the buildings, improvements, fixtures and personal property of the properties under the mortgage facility are subject to security interests granted to the lender. As of March 31, 2009, \$42.0 million was outstanding under this facility.

***Interest Rate Swaps***

We use interest rate swaps to manage interest rate risk associated with our variable rate floor plan debt. We are party to interest rate swap agreements through January 7, 2011 pursuant to which the LIBOR portion of \$300.0 million of our floating rate floor plan debt was fixed at 3.67%. We may terminate this arrangement at any time subject to the settlement of the then current fair value of the swap arrangements. The swaps are designated as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings. The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. As of March 31, 2009, we used Level 2 inputs as described under SFAS No. 157 to estimate the fair value of these contracts to be a liability of \$15.1 million, of which \$9.0 million and \$6.1 million are recorded in accrued expenses and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheet. During the three months ended March 31, 2009, we recognized a net gain of \$0.2 million related to the interest rate swaps in accumulated other comprehensive loss and reclassified \$2.4 million of existing derivative losses from accumulated other comprehensive loss into floor plan interest expense in the Condensed Consolidated Statement of Income. We expect approximately \$9.0 million associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the interest payments become due. During the three months ended March 31, 2009, the swaps increased the weighted average interest rate on floor plan borrowings by approximately 0.2%.

We were party to an interest rate swap agreement which expired in 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.

***Operating Leases***

We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease substantially all of our dealership properties and other facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at our election. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of our other lease covenants give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease, as defined.

***Sale/Leaseback Arrangements***

We have in the past and expect in the future to enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to third parties and agree to lease those assets back for a certain period of time. Such sales generate proceeds which vary from period to period. In light of current market conditions, this financing option has become more expensive and thus we may utilize these arrangements less in the near term.

**Table of Contents*****Off-Balance Sheet Arrangements******Third Party Lease Obligations***

Since 1999, we have sold a number of dealerships to third parties. We have at times, as a condition to the sale, remained liable for the lease payments relating to the properties on which those franchises operate. We rely on the buyer of the franchise to pay the associated rent and maintain the property. In the event the buyer does not perform as expected (due to the buyer's financial condition or other factors such as the market performance of the underlying vehicle manufacturer), we may not be able to recover amounts owed to us by the buyer. In this event, we could be required to fulfill these obligations, which could materially adversely affect our results of operations, financial condition or cash flows.

**Cash Flows**

Cash and cash equivalents decreased by \$8.7 million during the three months ended March 31, 2009 and increased by \$7.0 million during the three months ended March 31, 2008. The major components of these changes are discussed below.

***Cash Flows from Continuing Operating Activities***

Cash provided by operating activities was \$175.9 million and \$36.4 million during the three months ended March 31, 2009 and 2008, respectively. Cash flows from operating activities include net income, as adjusted for non-cash items, and the effects of changes in working capital.

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. We retain the right to select which, if any, financing source to utilize in connection with the procurement of vehicle inventories. Many vehicle manufacturers provide vehicle financing for the dealers representing their brands, however, it is not a requirement that dealers utilize this financing. Historically, our floor plan finance source has been based on aggregate pricing considerations. In accordance with the guidance under SFAS No. 95, Statement of Cash Flows, we report all cash flows arising in connection with floor plan notes payable with the manufacturer of a particular new vehicle as an operating activity in our statement of cash flows, and all cash flows arising in connection with 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 a financing activity in our statement of cash flows. Currently, the majority of our non-trade vehicle financing is with other manufacturer captive lenders. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing.

We believe that changes in aggregate floor plan liabilities are typically linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. As a result, we have presented the following 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 for informational purposes:

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net cash from operating activities as reported	\$ 175,865	\$ 36,393
Floor plan notes payable – non-trade as reported	(121,866)	24,632
Net cash from operating activities, including all floor plan notes payable	\$ 53,999	\$ 61,025

***Cash Flows from Continuing Investing Activities***

Cash used in continuing investing activities was \$26.3 million and \$45.0 million during the three months ended March 31, 2009 and 2008, 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 and other investments. Capital expenditures were \$27.5 million and \$47.2 million during the three months ended March 31, 2009 and 2008, respectively. Capital expenditures relate primarily to improvements to our existing dealership

facilities and the construction of new facilities. As of March 31, 2009, we do not have material commitments related to our planned or ongoing capital projects. We currently expect to finance our capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities. Proceeds from sale-leaseback transactions were \$3.7 million during the three months ended March 31, 2008. There were no sale-leaseback transactions during the three months ended March 31, 2009. Cash used in acquisitions and other investments, net of cash acquired, was \$11.5 million during the three months ended March 31, 2009, which includes cash used to repay sellers floor plan liabilities in such business acquisitions of \$5.8 million. We made no acquisitions during the three months ended March 31, 2008. The three months ended March 31, 2009 and 2008 include \$12.7 million of proceeds from other investing activities and \$1.5 million cash used in other investing activities, respectively.

**Table of Contents*****Cash Flows from Continuing Financing Activities***

Cash used in continuing financing activities was \$156.6 million during the three months ended March 31, 2009, and cash provided by continuing financing activities was \$15.9 million during the three months ended March 31, 2008. Cash flows from financing activities include net borrowings or repayments of long-term debt, repurchases of securities, net borrowings or repayments of floor plan notes payable non-trade, payments of deferred financing costs, and proceeds from the issuance of common stock, including proceeds from the exercise of stock options and dividends. We had net borrowings under our U.S credit agreement revolving credit line of \$70.0 million during the three months ended March 31, 2009. During the three months ended March 31, 2009, we repaid \$10.0 of our U.S. credit agreement term loan. We had net repayments of other long-term debt of \$43.3 million and \$0.2 million during the three months ended March 31, 2009 and 2008, respectively. We used \$51.4 million to repurchase \$68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes. We had net repayments of floor plan notes payable non-trade of \$121.9 million during the three months ended March 31, 2009 and net borrowings of floor plan notes payable non-trade of \$24.6 million during the three months ended March 31, 2008. During the three months ended March 31, 2008 we paid \$8.6 million of cash dividends to our stockholders. No cash dividends were paid to our stockholders during the three months ended March 31, 2009.

***Cash Flows from Discontinued Operations***

Cash flows relating to discontinued operations are not currently, nor are they expected to be, material to our liquidity or our capital resources. Management does not believe that there are any significant past, present or upcoming cash transactions relating to discontinued operations.

**Related Party Transactions*****Stockholders Agreement***

Several of our directors and officers are affiliated with Penske Corporation or related entities. 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 common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui ) own approximately 17% 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.

***Other Related Party Interests and Transactions***

Roger S. Penske is also a managing member of Transportation Resource Partners, an organization that undertakes investments in transportation-related industries. Richard J. Peters, one of our directors, is a managing director of Transportation Resource Partners and is a director of Penske Corporation. Lucio A. Noto (one of our directors) is an investor in Transportation Resource Partners. One of our directors, 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 President and a director, is also the President and a director of Penske Corporation. We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others behalf. These transactions are reviewed periodically by our Audit Committee and reflect the provider s cost or an amount mutually agreed upon by both parties. We, Penske Corporation and certain affiliates have also entered into a joint insurance agreement which provides that, with respect to certain joint insurance policies (which includes our property policy), available coverage with respect to a loss shall be paid to each party as stipulated in the policies. In the event of losses that exceed the limit of liability for any policy or policy period, the total policy proceeds shall be allocated based on the ratio of premiums paid.

We are a 9.0% limited partner of PTL, a leading global transportation services provider. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner of

PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital. Among other things, the partnership agreement provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests.



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

**Joint Venture Relationships**

From time to time, we enter into other joint venture relationships in the ordinary course of business, through which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of March 31, 2009, our automotive joint venture relationships were as follows:

<b>Location</b>	<b>Dealerships</b>	<b>Ownership Interest</b>
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	88.53%(A)(B)
Edison, New Jersey	Ferrari, Maserati	70.00%(B)
Las Vegas, Nevada	Ferrari, Maserati	50.00%(C)
Munich, Germany	BMW, MINI	50.00%(C)
Frankfurt, Germany	Lexus, Toyota	50.00%(C)
Aachen, Germany	Audi, Lexus, Toyota, Volkswagen	50.00%(C)
Mexico	Toyota	48.70%(C)
Mexico	Toyota	45.00%(C)

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor ), owns an 11.47% interest in this joint venture, which entitles the Investor to 20% of the joint venture s operating profits. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) Entity is consolidated in our financial statements.

(C) Entity is accounted for

using the equity  
method of  
accounting.

**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 periods of decline and recession similar to those experienced by 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, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. 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.

**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, we cannot be sure 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 various benchmarks. Such rates have historically increased during periods of increasing inflation.

**Forward Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements which generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, plan, estimate, predict, continue or variations of such terms, or the use 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 and share repurchases;
- our ability to obtain cost savings and synergies;

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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;

our liquidity;

interest rates;

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

our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our 2008 annual report on Form 10-K filed March 11, 2009. Important factors that could cause actual results to differ materially from our expectations include the following:

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

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;

a restructuring of one of the U.S. automotive manufacturers may adversely affect our operations, as well as the automotive sector as a whole;

we may not be able to satisfy our capital requirements for 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;

with respect to PTL, changes in tax, financial or regulatory rules or requirements, changes in the financial health of PTL's customers, labor strikes or work stoppages, asset utilization rates and industry competition;

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;

because most customers finance the cost of purchasing a vehicle, increased interest rates or a reduction in credit available to consumers 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;

non-compliance with the financial ratios and other covenants under our credit agreements and operating leases may materially adversely affect us;

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the success of our smart distribution depends upon continued availability of the vehicle and customer demand for that vehicle;

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;

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;

we may be involved in legal proceedings that could have a material adverse effect on our business;

our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency valuations; and

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

In addition:

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

shares eligible for future sale, or issuable under the terms of our convertible notes, 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 debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR or the Bank of England Base Rate. Based on the amount outstanding under these facilities as of March 31, 2009, a 100 basis point change in interest rates would result in an approximate \$3.0 million change to our annual other interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over the prime rate, defined LIBOR or the Euro Interbank offer Rate. We are currently party to swap agreements pursuant to which a notional \$300.0 million of our floating rate floor plan debt was exchanged for fixed rate debt through January 2011. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the trailing twelve months ended March 31, 2009, adjusted to exclude the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate \$12.2 million change to our annual floor plan interest expense.

We 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. These policies include:

the maintenance of our overall debt portfolio with targeted fixed and variable rate components;

the use of authorized derivative instruments;

the prohibition of using derivatives for trading or other speculative purposes; and

the prohibition of highly leveraged derivatives or derivatives for which we are unable to reliably estimate a fair value or obtain a market quotation.

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Interest rate fluctuations affect the fair market value of our fixed rate debt, including our swaps, the 7.75% Notes, the Convertible 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 March 31, 2009, we had dealership operations in the U.K. and Germany. In each of these markets, the local currency is the functional currency. Due to our intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. 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 \$78.0 million change to our revenues for the three months ended March 31, 2009.

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**

Under the supervision and with the participation of our management, including the principal executive and financial officers, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive and financial officers, to allow timely discussions regarding required disclosure.

Based upon this evaluation, the Company's principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. 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 control over financial reporting that occurred during the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal control 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 actions brought by governmental authorities, litigation with customers and employment related lawsuits, including class action claims and purported class action claims. As of March 31, 2009, we are not a party to any legal proceedings, including class action lawsuits 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 6. Exhibits**

- 10.1 Third Amended and Restated Limited Partnership Agreement of Penske Truck Leasing Co., L.P. dated March 26, 2009.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification.
- 31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification.
- 32 Section 1350 Certification.





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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.

PENSKE AUTOMOTIVE GROUP, INC.

By: /s/ Roger S. Penske  
Roger S. Penske  
*Chief Executive Officer*

Date: May 8, 2009

By: /s/ Robert T. O Shaughnessy  
Robert T. O Shaughnessy  
*Chief Financial Officer*

Date: May 8, 2009

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**EXHIBIT INDEX**

**Exhibit**

<b>No.</b>	<b>Description</b>
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32	Section 1350 Certification.