PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
July 31, 2009

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009
or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number 1-12297
Penske Automotive Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**22-3086739**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2555 Telegraph Road, Bloomfield Hills, Michigan	**48302-0954**
(Address of principal executive offices)	*(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 þ No o

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 o No o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

As of July 29, 2009, there were 91,524,280 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2009	December 31, 2008
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 21,871	$ 20,108
Accounts receivable, net of allowance for doubtful accounts of $2,041 and $2,075	321,654	294,048
Inventories	1,264,758	1,589,105
Other current assets	99,924	88,251
Assets held for sale	5,550	15,428
Total current assets	1,713,757	2,006,940
Property and equipment, net	710,853	662,121
Goodwill	817,794	777,783
Franchise value	203,679	196,358
Equity method investments	287,106	296,487
Other long-term assets	18,337	22,460
Total assets	$ 3,751,526	$ 3,962,149
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 777,803	$ 964,783
Floor plan notes payable non-trade	427,731	506,688
Accounts payable	215,643	178,282
Accrued expenses	203,307	195,994
Current portion of long-term debt	12,623	11,305
Liabilities held for sale	8,213	23,060
Total current liabilities	1,645,320	1,880,112
Long-term debt	949,043	1,052,060
Other long-term liabilities	259,167	221,556
Total liabilities	2,853,530	3,153,728
Commitments and contingent liabilities		
Equity		
Penske Automotive Group stockholders equity:		
Preferred Stock, $0.0001 par value; 100 shares authorized; none issued and outstanding		
Common Stock, $0.0001 par value, 240,000 shares authorized; 91,527 shares issued and outstanding at June 30, 2009; 91,431 shares issued and outstanding at December 31, 2008	9	9

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	734,109	731,037
Retained earnings	150,106	119,745
Accumulated other comprehensive income (loss)	10,210	(45,990)
Total Penske Automotive Group stockholders equity	894,434	804,801
Non-controlling interest	3,562	3,620
Total equity	897,996	808,421
Total liabilities and equity	$ 3,751,526	$ 3,962,149

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited) (In thousands, except per share amounts)			
Revenue:				
New vehicle	$ 1,091,374	$ 1,726,632	$ 2,062,462	$ 3,350,762
Used vehicle	657,464	806,864	1,271,334	1,597,706
Finance and insurance, net	54,572	75,262	102,903	148,979
Service and parts	332,108	359,389	659,143	717,715
Distribution	53,152	98,421	133,265	162,191
Fleet and wholesale vehicle	130,747	264,486	245,649	522,379
Total revenues	2,319,417	3,331,054	4,474,756	6,499,732
Cost of sales:				
New vehicle	1,005,265	1,582,160	1,905,050	3,069,868
Used vehicle	598,154	746,588	1,156,115	1,471,903
Service and parts	149,143	157,749	299,392	315,332
Distribution	45,702	82,605	114,016	136,222
Fleet and wholesale	126,823	265,790	238,134	522,843
Total cost of sales	1,925,087	2,834,892	3,712,707	5,516,168
Gross profit	394,330	496,162	762,049	983,564
Selling, general and administrative expenses	328,035	393,042	640,554	786,268
Depreciation and amortization	13,789	13,396	26,643	26,657
Operating income	52,506	89,724	94,852	170,639
Floor plan interest expense	(9,009)	(16,247)	(18,491)	(33,200)
Other interest expense	(13,663)	(12,423)	(28,142)	(24,292)
Debt discount amortization	(3,135)	(3,496)	(6,773)	(6,992)
Equity in earnings of affiliates	3,466	3,011	4,180	4,403
Gain on debt repurchase			10,429	
Income from continuing operations before income taxes	30,165	60,569	56,055	110,558
Income taxes	(10,316)	(21,122)	(20,026)	(38,905)
Income from continuing operations	19,849	39,447	36,029	71,653
Loss from discontinued operations, net of tax	(5,682)	(1,189)	(5,660)	(1,065)
Net income	14,167	38,258	30,369	70,588
Less: Income attributable to non-controlling interests	88	428	8	863

Net income attributable to Penske Automotive Group common stockholders	$	14,079	$	37,830	$	30,361	$	69,725
Basic earnings per share attributable to Penske Automotive Group common stockholders:								
Continuing operations	$	0.22	$	0.41	$	0.39	$	0.74
Discontinued operations		(0.06)		(0.01)		(0.06)		(0.01)
Net income	$	0.15	$	0.40	$	0.33	$	0.73
Shares used in determining basic earnings per share		91,531		95,385		91,506		95,261
Diluted earnings per share attributable to Penske Automotive Group common stockholders:								
Continuing operations	$	0.22	$	0.41	$	0.39	$	0.74
Discontinued operations		(0.06)		(0.01)		(0.06)		(0.01)
Net income	$	0.15	$	0.40	$	0.33	$	0.73
Shares used in determining diluted earnings per share		91,592		95,499		91,537		95,377
Amounts attributable to Penske Automotive Group common stockholders:								
Income from continuing operations	$	19,849	$	39,447	$	36,029	$	71,653
Less: Income attributable to non-controlling interests		88		428		8		863
Income from continuing operations, net of tax		19,761		39,019		36,021		70,790
Loss from discontinued operations, net of tax		(5,682)		(1,189)		(5,660)		(1,065)
Net income	$	14,079	$	37,830	$	30,361	$	69,725
Cash dividends per share	$		$	0.09	$		$	0.18

See Notes to Consolidated Condensed Financial Statements

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

	Six Months Ended June 30,	
	2009	2008
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 30,369	$ 70,588
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	26,643	26,657
Debt discount amortization	6,773	6,992
Undistributed earnings of equity method investments	(4,180)	(4,403)
Loss from discontinued operations, net of tax	5,660	1,065
Deferred income taxes	21,037	4,360
Gain on debt repurchase	(10,733)	
Changes in operating assets and liabilities:		
Accounts receivable	(27,045)	20,808
Inventories	341,768	(59,569)
Floor plan notes payable	(187,020)	120,230
Accounts payable and accrued expenses	32,562	11,374
Other	7,943	(14,272)
Net cash from continuing operating activities	243,777	183,830
Investing Activities:		
Purchase of equipment and improvements	(44,438)	(115,746)
Proceeds from sale-leaseback transactions		19,740
Dealership acquisitions net, including repayment of sellers floor plan notes payable of $5,784 and $0, respectively	(11,476)	(68,651)
Purchase of Penske Truck Leasing Co., L.P. partnership interest		(219,000)
Other	12,679	(1,500)
Net cash from continuing investing activities	(43,235)	(385,157)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	276,800	301,500
Repayments under U.S. credit agreement revolving credit line	(276,800)	(301,500)
Proceeds from U.S. credit agreement term loan		219,000
Repayments under U.S. credit agreement term loan	(10,000)	
Repurchase 3.5% senior subordinated convertible notes	(51,425)	
Net (repayments) borrowings of other long-term debt	(47,768)	454
Net repayments of floor plan notes payable non-trade	(78,957)	(24,775)
Proceeds from exercises of options, including excess tax benefit		820
Dividends		(17,134)
Net cash from continuing financing activities	(188,150)	178,365

Discontinued operations:				
Net cash from discontinued operating activities		(3,899)		(5,909)
Net cash from discontinued investing activities		6		60,099
Net cash from discontinued financing activities		(6,736)		(24,930)
Net cash from discontinued operations		(10,629)		29,260
Net change in cash and cash equivalents		1,763		6,298
Cash and cash equivalents, beginning of period		20,108		14,797
Cash and cash equivalents, end of period	$	21,871	$	21,095
Supplemental disclosures of cash flow information:				
Cash paid for:				
Interest	$	49,368	$	66,296
Income taxes		4,655		2,288
Seller financed debt				4,728

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders Equity Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity
	(Unaudited) (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	96,549		3,072			3,072		3,072
Distributions to non-controlling interests							(66)	(66)
Foreign currency translation					54,565	54,565		54,565
Other					1,635	1,635		1,635
Net income				30,361		30,361	8	30,369
Balance, June 30, 2009	91,527,330	$ 9	$ 734,109	$ 150,106	$ 10,210	$ 894,434	$ 3,562	$ 897,996

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 June 30, 2009 and December 31, 2008 and for the three and six month periods ended June 30, 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 Company evaluated subsequent events through July 31, 2009, the date the consolidated condensed financial statements were filed with the SEC. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through June 30, 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 six months ended June 30, 2009 include a $10,429 pre-tax gain relating to the repurchase of $68,740 aggregate principal amount of the Company s 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.

In June 2009, the Company announced that it entered into a non-binding memorandum of understanding (MOU) with General Motors regarding the potential acquisition of certain assets relating to the Saturn automotive brand. Pursuant to the MOU, the Company would obtain the rights to the Saturn brand, acquire certain assets including Saturn parts inventory, and have the right to distribute vehicles and parts through the Saturn dealership network. The Company does not intend to enter the manufacturing business nor does this transaction contemplate the Company purchasing any of the existing Saturn retailer network. If consummated, the Company anticipates offering existing Saturn retailers a new sales and service agreement. General Motors would continue to provide Saturn Aura, Vue and Outlook vehicles, on a contract basis, for an interim period. Any closing of the transaction is subject to satisfactory completion of due diligence, regulatory and other approvals.

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 net assets of dealerships accounted for as discontinued operations as of June 30, 2009 were immaterial. Combined income statement information regarding dealerships

accounted for as discontinued operations follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$ 15,810	$ 99,380	$ 33,968	$ 222,686
Pre-tax loss	(5,700)	(4,342)	(5,702)	(4,216)
Loss on disposal	(2,992)	(234)	(2,992)	(234)

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt, floor plan notes payable, and interest rate swaps used to hedge future cash flows. Other than our subordinated notes, the carrying amount of all significant financial instruments approximates fair value due either to length of maturity, the existence of variable interest rates that approximate prevailing market rates, or as a result of mark to market accounting. A summary of the fair value of the subordinated notes as of June 30, 2009, based on quoted, level one market data, follows:

	Carrying Value	Fair Value
7.75% senior subordinated notes due 2016	$ 375,000	$ 292,500
3.5% senior subordinated convertible notes due 2026	283,071	254,196

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

Effective January 1, 2009, the Company adopted a general accounting principle relating to debt with cash conversion options which required the Company 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 accounting principle retrospectively to all periods presented herein in accordance with general accounting principles governing accounting changes. 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.

Effective January 1, 2009, the Company adopted a general accounting principle relating to earnings per share which required 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 accounting principle retrospectively to all periods presented herein in accordance with accounting principles governing accounting changes.

The following tables summarize the effect of the accounting changes described above 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
Statement of Income for the three months ended June 30:						
Other interest expense	$ 13,755	$ (92)	$ 13,663	$ 12,535	$ (112)	$ 12,423
Debt discount amortization		3,135	3,135		3,496	3,496
Income tax expense	11,547	(1,231)	10,316	22,472	(1,350)	21,122
	21,573	(1,812)	19,761	41,053	(2,034)	39,019

Income from continuing operations attributable to Penske Automotive Group common stockholders						
Net income attributable to Penske Automotive Group common stockholders	15,891	(1,812)	14,079	39,864	(2,034)	37,830
Income from continuing operations attributable to Penske Automotive Group common stockholders per basic common share	0.24	(0.02)	0.22	0.43	(0.02)	0.41
Net income attributable to Penske Automotive Group common stockholders per basic common share	0.17	(0.02)	0.15	0.42	(0.02)	0.40
Shares used in determining basic earnings per share	90,842	689	91,531	94,506	879	95,385
Income from continuing operations attributable to Penske Automotive Group common stockholders per diluted common share	0.24	(0.02)	0.22	0.43	(0.02)	0.41
Net income attributable to Penske Automotive Group common stockholders per diluted common share	0.17	(0.02)	0.15	0.42	(0.02)	0.40
Shares used in determining diluted earnings per share	91,050	542	91,592	94,895	604	95,499

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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
Statement of Income for the six months ended June 30:						
Other interest expense	$ 28,346	$ (204)	$ 28,142	$ 24,516	$ (224)	$ 24,292
Debt discount amortization		6,773	6,773		6,992	6,992
Income tax expense	22,663	(2,637)	20,026	41,605	(2,700)	38,905
Income from continuing operations attributable to Penske Automotive Group common stockholders	39,953	(3,932)	36,021	74,858	(4,068)	70,790
Net income attributable to Penske Automotive Group common stockholders	34,293	(3,932)	30,361	73,793	(4,068)	69,725
Income from continuing operations attributable to Penske Automotive Group common stockholders per basic common share	0.44	(0.05)	0.39	0.79	(0.05)	0.74
Net income attributable to Penske Automotive Group common stockholders per basic common share	0.38	(0.05)	0.33	0.78	(0.05)	0.73
Shares used in determining basic earnings per share	90,791	715	91,506	94,422	839	95,261
Income from continuing operations attributable to Penske Automotive Group common stockholders per diluted common share	0.44	(0.05)	0.39	0.79	(0.05)	0.74
Net income attributable to Penske Automotive Group common stockholders per diluted common share	0.38	(0.05)	0.33	0.78	(0.05)	0.73
Shares used in determining diluted earnings per share	90,922	615	91,537	94,784	593	95,377

2009		2008	
As calculated under		As calculated under	

	previous accounting	Effect of changes	As reported	previous accounting	Effect of changes	As reported
Balance Sheet as of June 30, 2009 and December 31, 2008:						
Other current assets	$ 100,291	$ (367)	$ 99,924	$ 88,701	$ (450)	$ 88,251
Other long-term assets	18,613	(276)	18,337	23,022	(562)	22,460
Long-term debt	972,232	(23,189)	949,043	1,087,932	(35,872)	1,052,060
Other long-term liabilities	250,356	8,811	259,167	207,771	13,785	221,556
Additional paid-in-capital	691,016	43,093	734,109	687,944	43,093	731,037
Retained earnings	179,464	(29,358)	150,106	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
Statement of Cash Flows for the six months ended June 30:						
Net income	34,301	(3,932)	30,369	74,656	(4,068)	70,588
Debt discount amortization		6,773	6,773		6,992	6,992
Deferred income taxes	23,674	(2,637)	21,037	7,060	(2,700)	4,360
Other	8,147	(204)	7,943	(14,048)	(224)	(14,272)

New Accounting Pronouncement

A new accounting pronouncement amending the consolidation guidance relating to variable interest entities (VIE) will be effective for the Company on January 1, 2010. The new guidance replaces the current quantitative model for determining the primary beneficiary of a variable interest entity with a qualitative approach that considers which entity has the power to direct activities that most significantly impact the variable interest entity s performance and whether the entity has an obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. The new guidance also requires: an additional reconsideration event for determining whether an entity is a VIE when holders of an at risk equity investment lose voting or similar rights to direct the activities that most significantly impact the entities economic performance; ongoing assessments of whether an enterprise is the primary beneficiary of a VIE; separate presentation of the assets and liabilities of the VIE on the balance sheet; and additional disclosures about an entity s involvement with a VIE. The adoption of the accounting pronouncement will not impact the Company s Consolidated Financial Statements.

2. Inventories

Inventories consisted of the following:

	June 30, 2009	**December 31, 2008**
New vehicles	$ 906,682	$ 1,247,897
Used vehicles	276,641	259,274
Parts, accessories and other	81,435	81,934
Total inventories	$ 1,264,758	$ 1,589,105

The Company receives non-refundable credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $9,046 and $13,946 during the six months ended June 30, 2009 and 2008, respectively.

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

3. Business Combinations

The Company acquired five automotive franchises during each of the six months ended June 30, 2009 and 2008, respectively. The Company s financial statements include the results of operations of the acquired dealerships from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in the Company s Consolidated Condensed Financial Statements, and 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 for the six months ended June 30, 2009 and 2008 follows:

	June 30, 2009	June 30, 2008
Accounts receivable	$	$ 2,560
Inventory	5,921	36,476
Other current assets	129	815
Property and equipment	3,250	1,836
Goodwill	1,746	31,004
Franchise value	749	10,742
Current liabilities	(319)	(14,782)
Cash used in dealership acquisitions	$ 11,476	$ 68,651

4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the six months ended June 30, 2009:

	Goodwill	Franchise Value
Balances January 1, 2009	$ 777,783	$ 196,358
Additions	1,746	749
Foreign currency translation	38,265	6,572
Balance June 30, 2009	$ 817,794	$ 203,679

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.

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 and six months ended June 30, 2009 and 2008 follows:

	Three Months Ended June		Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted average number of common shares outstanding	91,531	95,385	91,506	95,261
Effect of stock options	61	114	31	116
Weighted average number of common shares outstanding, including effect of dilutive securities	91,592	95,499	91,537	95,377

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During the three and six months ended June 30, 2009, 3 and 222 stock options, respectively, 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 outstanding during the three or six months ended June 30, 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 June 30, 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 anti-dilutive.

7. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2009	December 31, 2008
U.S. credit agreement term loan	$ 199,000	$ 209,000
U.K. credit agreement revolving credit line	21,390	59,831
U.K. credit agreement term loan	23,228	25,752
U.K. credit agreement overdraft line of credit	15,382	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	283,071	339,128
Mortgage facilities	41,804	42,243
Other	2,791	2,909
Total long-term debt	961,666	1,063,365
Less: current portion	(12,623)	(11,305)
Net long-term debt	$ 949,043	$ 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 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 June 30, 2009, the Company was in compliance with all covenants under the U.S. Credit Agreement.

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 June 30,

2009, $199,000 of term loans and $500 of letters of credit were outstanding under this facility. There were no revolving loans outstanding as of June 30, 2009.

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.

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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 June 30, 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 June 30, 2009, outstanding loans under the U.K. Credit Agreement amounted to £36,465 ($60,000), including £14,117 ($23,228) under the term loan.

7.75% Senior Subordinated Notes

In December 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 June 30, 2009, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

In January 2006, the Company issued $375,000 aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes), of which $306,260 are currently outstanding. 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 June 30, 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.

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.

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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. In connection with the transaction, the Company wrote off $5,909 of unamortized debt discount and $672 of unamortized deferred financing costs, and incurred $305 of transaction costs. No element of the consideration was allocated to the reacquisition of the equity component because the consideration paid was less than the fair value of the liability component prior to extinguishment. As a result, the Company recorded a $10,429 pre-tax gain in connection with the repurchase.

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

	June 30, 2009	December 31, 2008
Carrying amount of the equity component	$ 43,093	$ 43,093
Principal amount of the liability component	$ 306,260	$ 375,000
Unamortized debt discount	23,189	35,872
Net carrying amount of the liability component	$ 283,071	$ 339,128

The remaining unamortized debt discount will be amortized as additional interest expense through the date the Company expects to be required to redeem the Convertible Notes, approximately $12,984 of which will be recognized as an increase of interest expense over the next twelve months. The annual effective interest rate on the liability component is 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 June 30, 2009, $41,804 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 June 30, 2009, the Company used Level 2 inputs to estimate the fair value of these contracts to be a liability of $12,954, of which $9,296 and $3,658 are recorded in accrued expenses and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheet. During the six months ended June 30, 2009, the Company recognized a net gain of $1,464 related to the interest rate swaps in accumulated other comprehensive income, and reclassified

$4,894 of existing derivative losses from accumulated other comprehensive income into floor plan interest expense in the Condensed Consolidated Statement of Income. The Company expects approximately $9,296 associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the hedged interest payments become due. During the six months ended June 30, 2009, the swaps increased the weighted average interest rate on the Company s floor plan borrowings by approximately 0.3%.

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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, and includes class action claims and purported class action claims. As of June 30, 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 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 an acceleration of the payments due under the lease.

The Company has sold a number of dealerships to third parties and, as a condition to certain of those sales, remains liable for the lease payments relating to the properties on which those franchises operate in the event of non-payment by the buyer. In this event, the Company could be required to fulfill that buyer s rent and other 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Attributable to Penske Automotive Group:				
Net income	$ 14,079	$ 37,830	$ 30,361	$ 69,725
Other comprehensive income:				
Foreign currency translation	52,357	1,706	54,565	5,766
Other	1,472	4,350	1,635	(921)
Total attributable to Penske Automotive Group	67,908	43,886	86,561	74,570
Attributable to the non-controlling interest:				
Net income	88	428	8	863
Total comprehensive income	$ 67,996	$ 44,314	$ 86,569	$ 75,433

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 general accounting principles

for segment reporting, including: (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 relating to the operation of the dealerships. The individual dealership operations included in the Retail segment have been grouped into five geographic operating segments, which have been 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.

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PENSKE AUTOMOTIVE GROUP, INC.
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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 in the table below in order to enhance the comparability of segment income from period to period.

Three Months Ended June 30

	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Revenues					
2009	$ 2,266,347	$ 58,878	$	$ (5,808)	$ 2,319,417
2008	3,232,633	116,881		(18,460)	3,331,054
Adjusted segment income					
2009	26,737	967	2,520	(59)	30,165
2008	49,060	10,307	1,193	9	60,569

Six Months Ended June 30

	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Revenues					
2009	$ 4,341,573	$ 147,509	$	$ (14,326)	$ 4,474,756
2008	6,337,541	192,361		(30,170)	6,499,732
Adjusted segment income					
2009	35,450	7,272	3,126	(222)	45,626
2008	95,445	14,254	1,437	(578)	110,558

The following table reconciles total adjusted segment income to consolidated income from continuing operations before income taxes for the six month periods ended June 30, 2009 and 2008. There were no reconciling items in the three month periods ended June 30, 2009 and 2008.

	Six Months Ended June 30,	
	2009	2008
Adjusted segment income	$ 45,626	$ 110,558
Gain on debt repurchase	10,429	
Income from continuing operations before income taxes	$ 56,055	$ 110,558

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12. Consolidating Condensed Financial Information

The following tables include consolidating condensed financial information as of June 30, 2009 and December 31, 2008 and for the three and six month periods ended June 30, 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
June 30, 2009

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Cash and cash equivalents	$ 21,871	$	$	$ 16,197	$ 5,674
Accounts receivable, net	321,654	(211,008)	211,008	178,466	143,188
Inventories	1,264,758			794,084	470,674
Other current assets	99,924		412	55,925	43,587
Assets held for sale	5,550				5,550
Total current assets	1,713,757	(211,008)	211,420	1,044,672	668,673
Property and equipment, net	710,853		6,260	430,571	274,022
Intangible assets	1,021,473			572,243	449,230
Equity method investments	287,106		221,303		65,803
Other long-term assets	18,337	(1,313,227)	1,319,341	11,108	1,115
Total assets	$ 3,751,526	$ (1,524,235)	$ 1,758,324	$ 2,058,594	$ 1,458,843
Floor plan notes payable	$ 777,803	$	$	$ 468,983	$ 308,820
Floor plan notes payable non-trade	427,731			262,288	165,443
Accounts payable	215,643		1,774	92,982	120,887
Accrued expenses	203,307	(211,008)	1,483	93,786	319,046
Current portion of long-term debt	12,623			1,008	11,615
Liabilities held for sale	8,213				8,213
Total current liabilities	1,645,320	(211,008)	3,257	919,047	934,024
Long-term debt	949,043	(119,793)	857,071	44,595	167,170
Other long-term liabilities	259,167			237,427	21,740
Total liabilities	2,853,530	(330,801)	860,328	1,201,069	1,122,934

Total equity	897,996	(1,193,434)	897,996	857,525	335,909
Total liabilities and equity	$ 3,751,526	$ (1,524,235)	$ 1,758,324	$ 2,058,594	$ 1,458,843

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

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Cash and cash equivalents	$ 20,108	$	$	$ 14,060	$ 6,048
Accounts receivable, net	294,048	(196,465)	196,465	182,583	111,465
Inventories	1,589,105			1,001,571	587,534
Other current assets	88,251		2,711	59,931	25,609
Assets held for sale	15,428			1,677	13,751
Total current assets	2,006,940	(196,465)	199,176	1,259,822	744,407
Property and equipment, net	662,121		6,927	416,300	238,894
Intangible assets	974,141			542,128	432,013
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
Total assets	$ 3,962,149	$ (1,489,896)	$ 1,734,100	$ 2,230,419	$ 1,487,526
Floor plan notes payable	$ 964,783	$	$	$ 659,531	$ 305,252
Floor plan notes payable non-trade	506,688			268,988	237,700
Accounts payable	178,282		2,183	80,002	96,097
Accrued expenses	195,994	(196,465)	368	94,983	297,108
Current portion of long-term debt	11,305			978	10,327
Liabilities held for sale	23,060			1,460	21,600
Total current liabilities	1,880,112	(196,465)	2,551	1,105,942	968,084
Long-term debt	1,052,060	(138,341)	923,128	44,117	223,156
Other long-term liabilities	221,556			201,691	19,865
Total liabilities	3,153,728	(334,806)	925,679	1,351,750	1,211,105
Total equity	808,421	(1,155,090)	808,421	878,669	276,421
Total liabilities and equity	$ 3,962,149	$ (1,489,896)	$ 1,734,100	$ 2,230,419	$ 1,487,526

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended June 30, 2009

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 2,319,417	$	$	$ 1,384,071	$ 935,346
Cost of sales	1,925,087			1,140,784	784,303
Gross profit	394,330			243,287	151,043
Selling, general, and administrative expenses	328,035		6,229	203,341	118,465
Depreciation and amortization	13,789		290	8,659	4,840
Operating income (loss)	52,506		(6,519)	31,287	27,738
Floor plan interest expense	(9,009)			(6,285)	(2,724)
Other interest expense	(13,663)		(10,754)	(34)	(2,875)
Debt discount amortization	(3,135)		(3,135)		
Equity in income of affiliates	3,466		2,381		1,085
Equity in earnings of subsidiaries		(48,104)	48,104		
Income from continuing operations before income taxes	30,165	(48,104)	30,077	24,968	23,224
Income taxes	(10,316)	16,499	(10,316)	(9,920)	(6,579)
Income from continuing operations	19,849	(31,605)	19,761	15,048	16,645
Loss from discontinued operations, net of tax	(5,682)	5,682	(5,682)	(3,411)	(2,271)
Net income	14,167	(25,923)	14,079	11,637	14,374
Less: Income attributable to the non-controlling interests	88				88
Net income attributable to Penske Automotive Group common stockholders	$ 14,079	$ (25,923)	$ 14,079	$ 11,637	$ 14,286

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CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended June 30, 2008

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 3,331,054	$	$	$ 1,965,690	$ 1,365,364
Cost of sales	2,834,892			1,656,706	1,178,186
Gross profit	496,162			308,984	187,178
Selling, general, and administrative expenses	393,042		2,922	245,040	145,080
Depreciation and amortization	13,396		290	7,608	5,498
Operating income (loss)	89,724		(3,212)	56,336	36,600
Floor plan interest expense	(16,247)			(9,426)	(6,821)
Other interest expense	(12,423)		(8,385)	(36)	(4,002)
Debt discount amortization	(3,496)		(3,496)		
Equity in income of affiliates	3,011				3,011
Equity in earnings of subsidiaries		(75,234)	75,234		
Income from continuing operations before income taxes	60,569	(75,234)	60,141	46,874	28,788
Income taxes	(21,122)	26,423	(21,122)	(17,576)	(8,847)
Income from continuing operations	39,447	(48,811)	39,019	29,298	19,941
Loss from discontinued operations, net of tax	(1,189)	1,189	(1,189)	(956)	(233)
Net income	38,258	(47,622)	37,830	28,342	19,708
Less: Income attributable to the non-controlling interests	428				428
Net income attributable to Penske Automotive Group common stockholders	$ 37,830	$ (47,622)	$ 37,830	$ 28,342	$ 19,280

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Six Months Ended June 30, 2009

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 4,474,756	$	$	$ 2,661,256	$ 1,813,500
Cost of sales	3,712,707			2,191,976	1,520,731
Gross profit	762,049			469,280	292,769
Selling, general, and administrative expenses	640,554		9,547	401,488	229,519
Depreciation and amortization	26,643		580	16,962	9,101
Operating income (loss)	94,852		(10,127)	50,830	54,149
Floor plan interest expense	(18,491)			(12,555)	(5,936)
Other interest expense	(28,142)		(22,226)	(65)	(5,851)
Debt discount amortization	(6,773)		(6,773)		
Equity in income of affiliates	4,180		2,964		1,216
Gain on debt repurchase	10,429		10,429		
Equity in earnings of subsidiaries		(81,780)	81,780		
Income from continuing operations before income taxes	56,055	(81,780)	56,047	38,210	43,578
Income taxes	(20,026)	29,221	(20,026)	(17,024)	(12,197)
Income from continuing operations	36,029	(52,559)	36,021	21,186	31,381
Loss from discontinued operations, net of tax	(5,660)	5,660	(5,660)	(3,541)	(2,119)
Net income	30,369	(46,899)	30,361	17,645	29,262
Less: Income attributable to the non-controlling interests	8				8
Net income attributable to Penske Automotive Group	$ 30,361	$ (46,899)	$ 30,361	$ 17,645	$ 29,254

common stockholders

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Six Months Ended June 30, 2008

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 6,499,732	$	$	$ 3,689,166	$ 2,810,566
Cost of sales	5,516,168			3,107,406	2,408,762
Gross profit	983,564			581,760	401,804
Selling, general, and administrative expenses	786,268		6,773	475,091	304,404
Depreciation and amortization	26,657		654	14,793	11,210
Operating income (loss)	170,639		(7,427)	91,876	86,190
Floor plan interest expense	(33,200)			(18,754)	(14,446)
Other interest expense	(24,292)		(15,392)	(73)	(8,827)
Debt discount amortization	(6,992)		(6,992)		
Equity in income of affiliates	4,403				4,403
Equity in earnings of subsidiaries		(139,506)	139,506		
Income from continuing operations before income taxes	110,558	(139,506)	109,695	73,049	67,320
Income taxes	(38,905)	49,478	(38,905)	(29,142)	(20,336)
Income from continuing operations	71,653	(90,028)	70,790	43,907	46,984
(Loss) income from discontinued operations, net of tax	(1,065)	1,065	(1,065)	(1,141)	76
Net income	70,588	(88,963)	69,725	42,766	47,060
Less: Income attributable to the non-controlling interests	863				863
Net income attributable to Penske Automotive Group	$ 69,725	$ (88,963)	$ 69,725	$ 42,766	$ 46,197

common stockholders

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2009

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	$ 243,777	$ 49,853	$ 56,576	$ 137,348
Investing activities:				
Purchase of property and equipment	(44,438)	87	(30,677)	(13,848)
Dealership acquisitions, net	(11,476)		(3,556)	(7,920)
Other	12,679	11,485		1,194
Net cash from continuing investing activities	(43,235)	11,572	(34,233)	(20,574)
Financing activities:				
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 of long-term debt	(47,768)		(8,080)	(39,688)
Net repayments of floor plan notes payable non-trade	(78,957)		(6,703)	(72,254)
Distributions from (to) parent			20	(20)
Net cash from continuing financing activities	(188,150)	(61,425)	(14,763)	(111,962)
Net cash from discontinued operations	(10,629)		(5,443)	(5,186)
Net change in cash and cash equivalents	1,763		2,137	(374)
Cash and cash equivalents, beginning of period	20,108		14,060	6,048
Cash and cash equivalents, end of period	$ 21,871	$	$ 16,197	$ 5,674

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2008

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	$ 183,830	$ 7,908	$ 114,075	$ 61,847
Investing activities:				
Purchase of property and equipment	(115,746)	(7,908)	(57,869)	(49,969)
Proceeds from sale leaseback transactions	19,740		5,964	13,776
Dealership acquisitions, net	(68,651)		(32,334)	(36,317)
Purchase of Penske Truck Leasing Co., L.P. partnership interest	(219,000)	(219,000)		
Other	(1,500)			(1,500)
Net cash from continuing investing activities	(385,157)	(226,908)	(84,239)	(74,010)
Financing activities:				
Proceeds from U.S. credit agreement term loan	219,000	219,000		
Net borrowings (repayments) of long-term debt	454	16,314	(3,962)	(11,898)
Net (repayments) borrowings of floor plan notes payable non-trade	(24,775)		(39,207)	14,432
Proceeds from exercises of options, including excess tax benefit	820	820		
Distributions from (to) parent			1,031	(1,031)
Dividends	(17,134)	(17,134)		
Net cash from continuing financing activities	178,365	219,000	(42,138)	1,503
Net cash from discontinued operations	29,260		17,153	12,107
Net change in cash and cash equivalents	6,298		4,851	1,447
Cash and cash equivalents, beginning of period	14,797		480	14,317
Cash and cash equivalents, end of period	$ 21,095	$	$ 5,331	$ 15,764

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Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, 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 June 30, 2009.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of June 30, 2009, we owned and operated 160 franchises in the U.S. and 151 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 more than 75 smart dealerships, nine of which 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 18,000 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 relating to this investment.

In June 2009, we announced that we have entered into a non-binding memorandum of understanding (MOU) with General Motors regarding the potential acquisition of certain assets relating to the Saturn automotive brand. Pursuant to the MOU, we would obtain the rights to the Saturn brand, acquire certain assets including Saturn parts inventory, and have the right to distribute vehicles and parts through the Saturn dealership network. We do not intend to enter the manufacturing business nor does this transaction contemplate us purchasing any of the existing Saturn retailer network. If consummated, we anticipate offering existing Saturn retailers with a new sales and service agreement. General Motors would continue to provide Saturn Aura, Vue and Outlook vehicles, on a contract basis, for an interim period. Any closing of the transaction is subject to satisfactory completion of due diligence, regulatory and other approvals.

Outlook

There has been reduced consumer confidence and spending in the markets in which we operate, which we believe has resulted in 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 two manufacturers filed for bankruptcy during the second quarter. While we have limited exposure to these manufacturers as a percentage of our overall revenue, the restructuring 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. We have been notified that our franchise rights at one of our General Motors dealerships will be terminated in 2010 as part of General Motors restructuring under bankruptcy protection. We do not expect this termination to materially adversely affect our results of operations, financial condition or cash flows.

In addition, continued weakness 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 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.

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 included a reduction in advertising activities, suspension of matching contributions to certain of our defined contribution plans, and the suspension of our quarterly cash dividends to stockholders. We continue to monitor the business climate, and are taking such further actions as needed to respond to current 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 and six months ended June 30, 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 these periods, 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 confidence, unemployment, 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 and six months ended June 30, 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 and six months ended June 30, 2009, due in part to lower vehicle sales volumes, coupled with the cost saving initiatives outlined above. Our rent expense is expected to grow as a result of cost of living indexes outlined in our lease agreements; however, this increase during the three and six months ended June 30, 2009 has been offset somewhat by recent increases in cost of living adjustments below our anticipated adjustment for certain leases, as well as by concessions granted by certain landlords in recognition of current market conditions. 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 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 three and six months ended June 30, 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, including PTL. It is our expectation that the 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. See Part II Item 1A Risk Factors and Forward-Looking Statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing 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 six months ended June 30, 2009 and 2008, we earned $144.9 million and $172.2 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $142.1 million and $168.5 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 our assessment that the franchise value 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 relating to 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.

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 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.

The net book value of our investments was $287.1 million and $297.8 million as of June 30, 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 is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes 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 $22.5 million and $19.2 million as of June 30, 2009 and December 31, 2008, respectively. Changes in the reserve estimate during 2009 relate primarily to the inclusion of additional participants in our self-insured 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 general accounting principles for discontinued operations, 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 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.

New Accounting Pronouncement

A new accounting pronouncement amending the consolidation guidance relating to variable interest entities (VIE) will be effective for us on January 1, 2010. The new guidance replaces the current quantitative model for determining the primary beneficiary of a variable interest entity with a qualitative approach that considers which entity has the power to direct activities that most significantly impact the variable interest entity s performance and whether the entity has an obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. The new guidance also requires: an additional reconsideration event for determining whether an entity is a VIE when holders of an at risk equity investment lose voting or similar rights to direct the activities that most significantly impact the entities economic performance; ongoing assessments of whether an enterprise is the primary beneficiary of a VIE; separate presentation of the assets and liabilities of the VIE on the balance sheet; and additional disclosures about an entity s involvement with a VIE. The adoption of the accounting pronouncement will not impact our Consolidated Financial Statements.

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 June 30, 2009 Compared to Three Months Ended June 30, 2008 (dollars in millions, except per unit amounts)

New Vehicle Data

			2009 vs. 2008	
	2009	2008	Change	% Change
New retail unit sales	33,126	50,072	(16,946)	(33.8%)
Same store new retail unit sales	31,547	49,224	(17,677)	(35.9%)
New retail sales revenue	$ 1,091.4	$ 1,726.6	$ (635.2)	(36.8%)
Same store new retail sales revenue	$ 1032.0	$ 1,701.0	$ (669.0)	(39.3%)
New retail sales revenue per unit	$ 32,946	$ 34,483	$ (1,537)	(4.5%)
Same store new retail sales revenue per unit	$ 32,713	$ 34,556	$ (1,843)	(5.3%)
Gross profit new	$ 86.1	$ 144.5	$ (58.4)	(40.4%)
Same store gross profit new	$ 81.3	$ 142.2	$ (60.9)	(42.8%)
Average gross profit per new vehicle retailed	$ 2,599	$ 2,885	$ (286)	(9.9%)
Same store average gross profit per new vehicle retailed	$ 2,577	$ 2,890	$ (313)	(10.8%)
Gross margin % new	7.9%	8.4%	(0.5%)	(6.0%)
Same store gross margin % new	7.9%	8.4%	(0.5%)	(6.0%)

Units

Retail unit sales of new vehicles decreased 16,946 units, or 33.8%, from 2008 to 2009. The decrease is due a 17,677 unit, or 35.9%, decrease in same store retail unit sales during the period, offset by a 731 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 brand stores in the U.S. and U.K. During the second quarter, unit sales in the U.S. market declined 32% and registrations in the U.K. market declined 21%. The decline in our unit sales is associated with overall weak demand for new vehicles and the associated decline in consumer traffic in our showrooms.

Revenues

New vehicle retail sales revenue decreased $635.2 million, or 36.8%, from 2008 to 2009. The decrease is due to a $669.0 million, or 39.3%, decrease in same store revenues, offset by a $33.8 million increase from net dealership

acquisitions. The same store revenue decrease is due primarily to the 35.9% decrease in retail unit sales, which reduced revenue by $610.9 million, coupled with a $1,843, or 5.3%, decrease in average selling prices per unit which decreased revenue by $58.1 million.

Gross Profit

Retail gross profit from new vehicle sales decreased $58.4 million, or 40.4%, from 2008 to 2009. The decrease is due to a $60.9 million, or 42.8%, decrease in same store gross profit, offset by a $2.5 million increase from net dealership acquisitions. The same store decrease is due primarily to the 35.9% decrease in retail unit sales, which reduced gross profit by $51.1 million, coupled with a $313, or 10.8%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by $9.8 million.

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Used Vehicle Data

	2009	2008	2009 vs. 2008 Change	% Change
Used retail unit sales	26,004	27,624	(1,620)	(5.9%)
Same store used retail unit sales	24,442	27,291	(2,849)	(10.4%)
Used retail sales revenue	$ 657.5	$ 806.9	$ (149.4)	(18.5%)
Same store used retail sales revenue	$ 613.6	$ 797.0	$ (183.4)	(23.0%)
Used retail sales revenue per unit	$ 25,283	$ 29,209	$ (3,926)	(13.4%)
Same store used retail sales revenue per unit	$ 25,103	$ 29,205	$ (4,102)	(14.0%)
Gross profit used	$ 59.3	$ 60.3	$ (1.0)	(1.7%)
Same store gross profit used	$ 55.7	$ 59.3	$ (3.6)	(6.1%)
Average gross profit per used vehicle retailed	$ 2,281	$ 2,182	$ 99	4.5%
Same store average gross profit per used vehicle retailed	$ 2,279	$ 2,174	$ 105	4.8%
Gross margin % used	9.0%	7.5%	1.5%	20.0%
Same store gross margin % used	9.1%	7.4%	1.7%	23.0%

Units

Retail unit sales of used vehicles decreased 1,620 units, or 5.9%, from 2008 to 2009. The decrease is due to a 2,849 unit, or 10.4%, decrease in same store retail unit sales, offset by a 1,229 unit increase from net dealership acquisitions. The same store decrease was due primarily to unit sales decreases in volume foreign brand stores in the U.S. and premium brand stores in the U.K. We believe our sales of used vehicle units were influenced by the reduction in traffic in our stores resulting from the decline in consumer confidence, offset by customers electing to purchase used vehicles as a less expensive alternative to new vehicles due to the challenging economic climate.

Revenues

Used vehicle retail sales revenue decreased $149.4 million, or 18.5%, from 2008 to 2009. The decrease is due to a $183.4 million, or 23.0%, decrease in same store revenues, offset by a $34.0 million increase from net dealership acquisitions. The same store revenue decrease is due to a $4,102, or 14.0%, decrease in comparative average selling prices per unit, which decreased revenue by $100.2 million, coupled with the 10.4% decrease in same store retail unit sales which decreased revenue by $83.2 million.

Gross Profit

Retail gross profit from used vehicle sales decreased $1.0 million, or 1.7%, from 2008 to 2009. The decrease is due to a $3.6 million, or 6.1%, decrease in same store gross profit, offset by a $2.6 million increase from net dealership acquisitions. The decrease in same store gross profit is due to the 10.4% decrease in used retail unit sales, which decreased gross profit by $6.2 million, offset by a $105, or 4.8%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $2.6 million.

Finance and Insurance Data

	2009	2008	2009 vs. 2008 Change	% Change
Finance and insurance revenue	$ 54.6	$ 75.3	$ (20.7)	(27.5%)
Same store finance and insurance revenue	$ 51.9	$ 74.2	$ (22.3)	(30.1%)
Finance and insurance revenue per unit	$ 923	$ 969	$ (46)	(4.7%)
Same store finance and insurance revenue per unit	$ 927	$ 970	$ (43)	(4.4%)

Finance and insurance revenue decreased $20.7 million, or 27.5%, from 2008 to 2009. The decrease is due to a $22.3 million, or 30.1%, decrease in same store revenues during the period, offset by a $1.6 million increase from net dealership acquisitions. The same store revenue decrease is due to a 26.8% decrease in retail unit sales, which decreased revenue by $19.9 million, coupled with a $43, or 4.4%, decrease in comparative average finance and insurance revenue per unit which decreased revenue by $2.4 million. The $43 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.

Service and Parts Data

	2009	2008	2009 vs. 2008 Change	% Change
Service and parts revenue	$ 332.1	$ 359.4	$ (27.3)	(7.6%)
Same store service and parts revenue	$ 312.7	$ 353.0	$ (40.3)	(11.4%)
Gross profit	$ 183.0	$ 201.6	$ (18.6)	(9.2%)
Same store gross profit	$ 173.0	$ 198.1	$ (25.1)	(12.7%)
Gross margin	55.1%	56.1%	(1.0%)	(1.8%)
Same store gross margin	55.3%	56.1%	(0.8%)	(1.4%)

Revenues

Service and parts revenue decreased $27.3 million, or 7.6%, from 2008 to 2009. The decrease is due to a $40.3 million, or 11.4%, decrease in same store revenues during the period, offset by a $13.0 million increase from net dealership acquisitions. The same store decrease is due in part to a decline in pre-inspection and delivery work on new vehicle inventories due to the 35.9% decrease in same store new vehicle retail unit sales, coupled with a 14.2% same store decrease in body shop revenue.

Gross Profit

Service and parts gross profit decreased $18.6 million, or 9.2%, from 2008 to 2009. The decrease is due to a $25.1 million, or 12.7%, decrease in same store gross profit during the period, offset by a $6.5 million increase from net dealership acquisitions. The same store gross profit decrease is due to the $40.3 million, or 11.4%, decrease in same store revenues, which decreased gross profit by $22.3 million, coupled with a 0.8% decrease in gross margin, which decreased gross profit by $2.8 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 decreased 4,072 units, or 52.7%, from 7,731 during the three months ended June 30, 2008 to 3,659 during the three months ended June 30, 2009. Total distribution segment revenue decreased $58.0 million, or 49.6%, from $116.9 million during the three months ended June 30, 2008 to $58.9 million during the three months ended June 30, 2009. Segment gross profit, which includes gross profit on vehicle and parts sales, totaled $7.5 million and $15.8 million during the three months ended June 30, 2009 and 2008, respectively.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) decreased $65.0 million, or 16.5%, from $393.0 million to $328.0 million. The aggregate decrease is due primarily to a $74.7 million, or 19.4%, decrease in same store SG&A, offset by a $9.7 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 23.6% 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 79.2% to 83.2%.

Depreciation and Amortization

Depreciation and amortization increased $0.4 million, or 2.9%, from $13.4 million to $13.8 million. The increase is due to a $0.2 million, or 1.7%, increase in same store depreciation and amortization, coupled with a $0.2 million increase from net dealership acquisitions.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, decreased $7.2 million, or 44.5%, from $16.2 million to $9.0 million. The decrease is due to a $7.3 million, or 45.7%, 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 our floor plan arrangements were generally lower in 2009 versus 2008, 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.

Other Interest Expense

Other interest expense increased $1.3 million, or 10.0%, from $12.4 million to $13.7 million. The increase is due primarily to an increase in average outstanding indebtedness in 2009 as a result of our investment in PTL in June 2008, offset by decreases in benchmark lending rates.

Debt Discount Amortization

Debt discount amortization decreased $0.4 million, from $3.5 million to $3.1 million, due primarily to the write off of a portion of our aggregate debt discount in connection with the repurchase of a portion of our outstanding 3.5% senior subordinated convertible notes in March 2009.

Equity in Earnings of Affiliates

Equity in earnings of affiliates increased $0.5 million, from $3.0 million to $3.5 million. The increase from 2008 to 2009 is primarily related to earnings associated with our investment in PTL in June 2008, offset by the impact of the difficult operating conditions outlined above.

Income Taxes

Income taxes decreased $10.8 million, or 51.2%, from $21.1 million to $10.3 million. The decrease from 2008 to 2009 is due to the decrease in our pre-tax income versus the prior year, coupled with a decrease in our overall effective income tax rate resulting from the relative strength of our operations in foreign markets with lower tax rates.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 (dollars in millions, except per unit amounts)

Our results for the six months ended June 30, 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

			2009 vs. 2008	
	2009	**2008**	**Change**	**% Change**
New retail unit sales	63,760	95,225	(31,465)	(33.0%)
Same store new retail unit sales	60,293	93,616	(33,323)	(35.6%)
New retail sales revenue	$ 2,062.5	$ 3,350.8	$ (1,288.3)	(38.4%)
Same store new retail sales revenue	$ 1,942.8	$ 3,296.3	$ (1,353.5)	(41.1%)
New retail sales revenue per unit	$ 32,347	$ 35,188	$ (2,841)	(8.1%)
Same store new retail sales revenue per unit	$ 32,223	$ 35,211	$ (2,988)	(8.5%)
Gross profit new	$ 157.4	$ 280.9	$ (123.5)	(44.0%)
Same store gross profit new	$ 147.8	$ 275.5	$ (127.7)	(46.4%)
Average gross profit per new vehicle retailed	$ 2,469	$ 2,950	$ (481)	(16.3%)
Same store average gross profit per new vehicle retailed	$ 2,452	$ 2,943	$ (491)	(16.7%)
Gross margin % new	7.6%	8.4%	(0.8%)	(9.5%)
Same store gross margin % new	7.6%	8.4%	(0.8%)	(9.5%)

Units

Retail unit sales of new vehicles decreased 31,465 units, or 33.0%, from 2008 to 2009. The decrease is due a 33,323 unit, or 35.6%, decrease in same store retail unit sales during the period, offset by a 1,858 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 brand stores in the U.S. and U.K. During the six months ended June 30, 2009, unit sales in the U.S. market declined 35% while registrations in the U.K. market declined 26%. The decline in our unit sales is associated with overall weak demand for new vehicles and the associated decline in consumer traffic in our showrooms.

Revenues

New vehicle retail sales revenue decreased $1,288.3 million, or 38.4%, from 2008 to 2009. The decrease is due to a $1,353.5 million, or 41.1%, decrease in same store revenues, offset by a $65.2 million increase from net dealership acquisitions. The same store revenue decrease is due primarily to the 35.6% decrease in retail unit sales, which reduced revenue by $1,173.3 million, coupled with a $2,988, or 8.5%, decrease in average selling prices per unit which decreased revenue by $180.2 million.

Gross Profit

Retail gross profit from new vehicle sales decreased $123.5 million, or 44.0%, from 2008 to 2009. The decrease is due to a $127.7 million, or 46.4%, decrease in same store gross profit, offset by a $4.2 million increase from net dealership acquisitions. The same store decrease is due primarily to the 35.6% decrease in retail unit sales, which reduced gross profit by $98.1 million, coupled with a $491, or 16.7%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by $29.6 million.

Used Vehicle Data

	2009	2008	2009 vs. 2008 Change	2009 vs. 2008 % Change
Used retail unit sales	52,789	53,957	(1,168)	(2.2%)
Same store used retail unit sales	49,299	53,179	(3,880)	(7.3%)
Used retail sales revenue	$ 1,271.3	$ 1,597.7	$ (326.4)	(20.4%)
Same store used retail sales revenue	$ 1,180.5	$ 1,572.8	$ (392.3)	(24.9%)
Used retail sales revenue per unit	$ 24,083	$ 29,611	$ (5,528)	(18.7%)
Same store used retail sales revenue per unit	$ 23,945	$ 29,576	$ (5,631)	(19.0%)
Gross profit used	$ 115.2	$ 125.8	$ (10.6)	(8.4%)
Same store gross profit used	$ 107.3	$ 124.0	$ (16.7)	(13.5%)
Average gross profit per used vehicle retailed	$ 2,183	$ 2,331	$ (148)	(6.3%)
Same store average gross profit per used vehicle retailed	$ 2,177	$ 2,332	$ (155)	(6.6%)
Gross margin % used	9.1%	7.9%	1.2%	15.2%
Same store gross margin % used	9.1%	7.9%	1.2%	15.2%

Units

Retail unit sales of used vehicles decreased 1,168 units, or 2.2%, from 2008 to 2009. The decrease is due to a 3,880 unit, or 7.3%, decrease in same store retail unit sales, offset by a 2,712 unit increase from net dealership acquisitions. The same store decrease was due primarily to unit sales decreases in volume foreign brand stores in the U.S. We believe our sales of used vehicle units were influenced by the reduction in traffic in our stores resulting from the decline in consumer confidence, offset by customers electing to purchase used vehicles as a less expensive alternative to new vehicles due to the challenging economic climate.

Revenues

Used vehicle retail sales revenue decreased $326.4 million, or 20.4%, from 2008 to 2009. The decrease is due to a $392.3 million, or 24.9%, decrease in same store revenues, offset by a $65.9 million increase from net dealership acquisitions. The same store revenue decrease is due to a $5,631, or 19.0%, decrease in comparative average selling prices per unit, which decreased revenue by $277.6 million, coupled with the 7.3% decrease in same store retail unit sales which decreased revenue by $114.7 million.

Gross Profit

Retail gross profit from used vehicle sales decreased $10.6 million, or 8.4%, from 2008 to 2009. The decrease is due to a $16.7 million, or 13.5%, decrease in same store gross profit, offset by a $6.1 million increase from net dealership acquisitions. The decrease in same store gross profit is due to the 7.3% decrease in used retail unit sales, which decreased gross profit by $9.1 million, coupled with a $155, or 6.6%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by $7.6 million.

Finance and Insurance Data

	2009	2008	2009 vs. 2008 Change	2009 vs. 2008 % Change
Finance and insurance revenue	$ 102.9	$ 149.0	$ (46.1)	(30.9%)
Same store finance and insurance revenue	$ 97.7	$ 146.8	$ (49.1)	(33.4%)
Finance and insurance revenue per unit	$ 883	$ 999	$ (116)	(11.6%)

Same store finance and insurance revenue per unit	$	891	$	1,000	$	(109)	(10.9%)

Finance and insurance revenue decreased $46.1million, or 30.9%, from 2008 to 2009. The decrease is due to a $49.1 million, or 33.4%, decrease in same store revenues during the period, offset by a $3.0 million increase from net dealership acquisitions. The same store revenue decrease is due to a 25.3% decrease in retail unit sales, which decreased revenue by $37.2 million, coupled with a $109, or 10.9%, decrease in comparative average finance and insurance revenue per unit which decreased revenue by $11.9 million. The $109 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.

Service and Parts Data

	2009	2008	2009 vs. 2008 Change	% Change
Service and parts revenue	$ 659.1	$ 717.7	$ (58.6)	(8.2%)
Same store service and parts revenue	$ 621.4	$ 704.2	$ (82.8)	(11.8%)
Gross profit	$ 359.7	$ 402.4	$ (42.7)	(10.6%)
Same store gross profit	$ 339.9	$ 394.5	$ (54.6)	(13.8%)
Gross margin	54.6%	56.1%	(1.5%)	(2.7%)
Same store gross margin	54.7%	56.0%	(1.3%)	(2.3%)

Revenues

Service and parts revenue decreased $58.6 million, or 8.2%, from 2008 to 2009. The decrease is due to an $82.8 million, or 11.8%, decrease in same store revenues during the period, offset by a $24.2 million increase from net dealership acquisitions. The same store decrease is due in part to a decline in pre-inspection and delivery work on new vehicle inventories due to the 35.6% decrease in same store new vehicle retail unit sales, coupled with a 13.2% same store decrease in body shop revenue.

Gross Profit

Service and parts gross profit decreased $42.7 million, or 10.6%, from 2008 to 2009. The decrease is due to a $54.6 million, or 13.8%, decrease in same store gross profit during the period, offset by an $11.9 million increase from net dealership acquisitions. The same store gross profit decrease is due to the $82.8 million, or 11.8%, decrease in same store revenues, which decreased gross profit by $45.3 million, coupled with a 1.3% decrease in gross margin, which decreased gross profit by $9.3 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 period decreased 3,271 units, or 25.9%, from 12,644 during the six months ended June 30, 2008 to 9,373 during the six months ended June 30, 2009. Total distribution segment revenue decreased $44.9 million, or 23.3%, from $192.4 million during the six months ended 2008 to $147.5 million during the six months ended 2009. Segment gross profit, which includes gross profit on vehicle and parts sales, totaled $19.5 million and $26.5 million during the six months ended June 30, 2009 and 2008, respectively.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) decreased $145.7 million, or 18.5%, from $786.3 million to $640.6 million. The aggregate decrease is due primarily to a $164.1 million, or 21.3%, decrease in same store SG&A, offset by an $18.4 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 26.4% 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 79.9% to 84.1%.

Depreciation and Amortization

Depreciation and amortization decreased $0.1 million, or 0.1%, from $26.7 million to $26.6 million. The decrease is due to a $0.3 million, or 1.3%, 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 $14.7 million, or 44.3%, from $33.2 million to $18.5 million. The decrease is due to a $14.8 million, or 45.6%, 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 our floor plan arrangements were generally lower in 2009 versus 2008, 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.

Other Interest Expense

Other interest expense increased $3.8 million, or 15.8%, from $24.3 million to $28.1 million. The increase is due primarily to an increase in average outstanding indebtedness in 2009 as a result of our investment in PTL in June 2008, offset by decreases in benchmark lending rates.

Debt Discount Amortization

Debt discount amortization decreased $0.2 million, from $7.0 million to $6.8 million, due primarily to the write off of a portion of our aggregate debt discount in connection with the repurchase of a portion of our outstanding 3.5% senior subordinated convertible notes in March 2009.

Equity in Earnings of Affiliates

Equity in earnings of affiliates decreased $0.2 million, from $4.4 million to $4.2 million. The decrease from 2008 to 2009 is primarily related to the impact of the difficult operating conditions outlined above, offset by earnings associated with our investment in PTL in June 2008.

Gain on Debt Repurchase

In March 2009, we repurchased $68.7 million principal amount of our outstanding 3.5% senior subordinated convertible notes, which had a book value of $62.8 million net of debt discount, for $51.4 million. In connection with the transaction, we wrote off $5.9 million of unamortized debt discount and $0.7 million of unamortized deferred financing costs, and incurred $0.3 million of transaction costs. No element of the consideration was allocated to the reacquisition of the equity component because the consideration paid was less than the fair value of the liability component prior to extinguishment. As a result, we recorded a $10.4 million pre-tax gain in connection with the repurchase.

Income Taxes

Income taxes decreased $18.9 million, or 48.5%, from $38.9 million to $20.0 million. The decrease from 2008 to 2009 is due to the decrease in our pre-tax income versus the prior year.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new businesses, 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 June 30, 2009, we had working capital of $68.4 million, including $21.9 million of cash, available to fund our operations and capital commitments. In addition, we had $250.0 million and £67.7 million ($111.3 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, including the potential acquisition of certain assets relating to the Saturn automotive brand, 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 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.

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.

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 June 30, 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 June 30, 2009, $199.0 of term loans and $0.5 million of letters of credit were outstanding under this facility. There were no revolving loans outstanding as of June 30, 2009.

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.

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 June 30, 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 June 30, 2009, outstanding loans under the U.K. credit agreement amounted to £36.5 million ($60.0 million), including £14.1 million ($23.2 million) under the term loan.

7.75% Senior Subordinated Notes

In December 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 June 30, 2009, we were in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

In January 2006, we issued $375.0 million aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes), of which $306.3 million are currently outstanding. 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 June 30, 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.

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. In connection with the transaction, we wrote off $5.9 million of unamortized debt discount and $0.7 million of unamortized deferred financing costs, and incurred $0.3 million of transaction costs. No element of the consideration was allocated to the reacquisition of the equity component because the consideration paid was less than the fair value of the liability component prior to extinguishment. As a result, we recorded a $10.4 million pre-tax gain in connection with the repurchase.

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 June 30, 2009, $41.8 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 June 30, 2009, we used Level 2 inputs to estimate the fair value of these contracts to be a liability of $13.0 million, of which $9.3 million and $3.7 million are recorded in accrued expenses and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheet. During the six months ended June 30, 2009, we recognized a net gain of $1.5 million related to the interest rate swaps in accumulated other comprehensive income, and reclassified $4.9 million of existing derivative losses from accumulated other comprehensive income into floor plan interest expense in the Condensed Consolidated Statement of Income. We expect approximately $9.3 million associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the hedged interest payments become due. During the six months ended June 30, 2009, the swaps increased the weighted average interest rate on floor plan borrowings by approximately 0.3%.

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 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 an acceleration of the payments due under the lease.

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.

Off-Balance Sheet Arrangements

Third Party Lease Obligations

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those franchises operate in the event of non-payment by the buyer. In this event, we could be required to fulfill that buyer s rent and other obligations, which could materially adversely affect our results of operations, financial condition or cash flows.

Cash Flows

Cash and cash equivalents increased by $1.8 million and $6.3 million during the six months ended June 30, 2009 and 2008, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by operating activities was $243.8 million and $183.8 million during the six months ended June 30, 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 we utilize this financing. Historically, our floor plan finance source has been based on aggregate pricing considerations.

In accordance with general accounting principles relating to the 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:

	Six Months Ended June 30,	
	2009	**2008**
Net cash from operating activities as reported	$ 243,777	$ 183,830
Floor plan notes payable non-trade as reported	(78,957)	(24,775)
Net cash from operating activities, including all floor plan notes payable	$ 164,820	$ 159,055

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was $43.2 million and $385.2 million during the six months ended June 30, 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 $44.4 million and $115.7 million during the six months ended June 30, 2009 and 2008, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. As of June 30, 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 $19.7 million

during the six months ended June 30, 2008. There were no sale-leaseback transactions during the six months ended June 30, 2009. Cash used in acquisitions and other investments, net of cash acquired, was $11.5 million and $68.7 million during the six months ended June 30, 2009 and 2008, respectively, which includes cash used to repay sellers floor plan liabilities in such business acquisitions of $5.8 million during the six months ended June 30, 2009. The six months ended June 30, 2009 and 2008 include $12.7 million of proceeds from other investing activities and $220.5 million cash used in other investing activities, which includes $219.0 million for the purchase of the PTL limited partnership interest in June 2008, respectively.

Cash Flows from Continuing Financing Activities

Cash used in continuing financing activities was $188.2 million during the six months ended June 30, 2009, and cash provided by continuing financing activities was $178.4 million during the six months ended June 30, 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, proceeds from the issuance of common stock, including proceeds from the exercise of stock options, and dividends. In June 2008 we borrowed $219.0 million to finance the purchase of the PTL limited partnership interest. During the six months ended June 30, 2009, we repaid $10.0 of our U.S. credit agreement term loan. We had net repayments of other long-term debt of $47.8 million during the six months ended June 30, 2009 and net borrowings of other long-term debt of $0.5 million during the six months ended June 30, 2008. In March 2009, 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 $79.0 million and $24.8 million during the six months ended June 30, 2009 and 2008, respectively. During the six months ended June 30, 2008 we received proceeds of $0.8 million from the exercise of stock options. During the six months ended June 30, 2008 we paid $17.1 million of cash dividends to our stockholders. No cash dividends were paid to our stockholders during the six months ended June 30, 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 a joint crime insurance policy, available coverage with respect to a loss shall be paid to each party per occurrence as stipulated in the policy.

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.

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 June 30, 2009, our automotive joint venture relationships were as follows:

Location	Dealerships	Ownership Interest
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, po 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;
- 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 and elsewhere in this report. 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, foreign exchange rates, consumer confidence, fuel prices and credit availability;
- our consummation of the acquisition of certain assets relating to the Saturn automotive brand, if it occurs, will subject us to additional financing, operational and other risks whose outcomes are uncertain;
- 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;
- the restructuring of the U.S. based 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;
- although we typically purchase vehicles and parts in the local functional currency, changes in foreign exchange rates may impact manufacturers, as many of the component parts of vehicles are manufactured in foreign markets, which could lead to an increase in our costs which we may not be able to pass on to the consumer;
- 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;

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- 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;
- 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 June 30, 2009, a 100 basis point change in interest rates would result in an approximate $2.4 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 June 30, 2009, adjusted to exclude the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate $11.0 million change to our annual floor plan interest expense.

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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.

Interest rate fluctuations affect the fair market value of our fixed rate debt, including our swaps, the 7.75% Notes, the Convertible Notes, mortgages and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

Foreign Currency Exchange Rates. As of June 30, 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 $160.6 million change to our revenues for the six months ended June 30, 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 claims brought by governmental authorities, issues with customers, and employment related matters, and includes class action claims and purported class action claims. As of June 30, 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.

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Item 1A. ***Risk Factors***

The following is a risk factor that should be considered in addition to those set forth in Part I, Item 1A of our Annual Report on Form 10-K for fiscal year ended December 31, 2008.

We have entered a memorandum of understanding to purchase certain assets relating to the Saturn automotive brand. Our consummation of that transaction, if it occurs, will subject us to additional financing, operational and other risks whose outcomes are currently uncertain.

We have entered into a non-binding memorandum of understanding (MOU) with General Motors regarding the potential acquisition of certain assets relating to the Saturn automotive brand. Pursuant to the MOU, we would obtain the rights to the Saturn automotive brand, acquire certain assets including Saturn parts inventory, and have the right to distribute vehicles and parts through the Saturn dealership network. We do not intend to enter the manufacturing business nor does this transaction contemplate us purchasing any of the existing Saturn retailer network. If consummated, we anticipate offering existing Saturn retailers a new sales and service agreement. General Motors would continue to provide Saturn Aura, Vue and Outlook vehicles, on a contract basis, for an interim period. Any closing of the transaction is subject to satisfactory completion of due diligence, regulatory and other approvals.

If this transaction is ultimately consummated, the distribution of a large number of vehicles and parts will involve developing and successfully transitioning or implementing new processes and strategies not currently used in our current operations. In connection with this effort, our senior management has devoted substantial time and effort and we expect to hire a team of employees. The costs and profit potential of this new business is currently uncertain. If our efforts to profitably distribute these vehicles and parts are not successful, or we incur unforeseen costs, our results of operations, financial condition or cash flows may be materially adversely affected.

Additional potential risks relating to this transaction include, among others that we may not currently foresee, limited customer demand for the Saturn vehicles, supply disruption or lack of availability of sufficient quantities of vehicles, an inability to procure future vehicles to distribute through the Saturn dealership network after the interim period in which General Motors will provide vehicles, and the cost and terms of any potential debt or equity financing we may undertake in connection with capitalizing this new business, each of which could materially adversely affect our results of operations, financial condition or cash flows.

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

Our Annual Meeting of Stockholders was held on April 30, 2009. Proxies for the Annual Meeting of Stockholders were solicited pursuant to regulation 14A under the Securities Exchange Act of 1934, as amended. There were no solicitations in opposition to the nominees or proposals listed in the proxy statement. Each of the eleven nominees listed in the proxy statement was elected. The results of the voting at the Annual Meeting of Stockholders is as follows:

1. Election of Directors

Nominee	For	Withheld
John D. Barr	85,236,910	244,205
Michael R. Eisenson	85,141,690	339,425
Hiroshi Ishikawa	85,042,319	438,796
Robert H. Kurnick, Jr.	85,095,869	385,246
William J. Lovejoy	85,248,765	232,350
Kimberly J. McWaters	81,646,166	3,834,949
Lucio A. Noto	85,092,040	389,075
Roger S. Penske	83,934,118	1,546,997
Richard J. Peters	85,088,265	392,850
Ronald G. Steinhart	85,240,851	240,264
H. Brian Thompson	85,126,316	354,799

2. Ratification of the selection of Deloitte & Touche LLP as our independent auditing firm for 2009

For	Against	Abstain	Non-Vote

85,373,736	101,629	5,750	0

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Item 5. ***Other Information***

In June 2009, we announced that we have entered into a non-binding memorandum of understanding (MOU) with General Motors regarding the potential acquisition of certain assets relating to the Saturn automotive brand. Pursuant to the MOU, we would obtain the rights to the Saturn brand, acquire certain assets including Saturn parts inventory, and have the right to distribute vehicles and parts through the Saturn dealership network. We do not intend to enter the manufacturing business nor does this transaction contemplate us purchasing any of the existing Saturn retailer network. If consummated, we anticipate offering existing Saturn retailers a new sales and service agreement. General Motors would continue to provide Saturn Aura, Vue and Outlook vehicles, on a contract basis, for an interim period. Any closing of the transaction is subject to satisfactory completion of due diligence, regulatory and other approvals.

Item 6. ***Exhibits***

4.1	Amended and Restated Supplemental Indenture regarding our 3.5% senior subordinated convertible notes due 2026 dated as of July 31, 2009, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., as trustee.
4.2	Amended and Restated Supplemental Indenture regarding 7.75% Senior Subordinated Notes due 2016 dated July 31, 2009, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and Bank of New York Trust Company, N.A., as trustee.
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
Date: July 31, 2009	*Chief Executive Officer*
	By: /s/ Robert T. O Shaughnessy
	Robert T. O Shaughnessy
Date: July 31, 2009	*Chief Financial Officer*

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EXHIBIT INDEX

Exhibit No.	Description
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31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification.
32	Section 1350 Certification.