PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
August 03, 2007

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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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one)

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer 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 23, 2007, there were 94,948,516 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 18,256	$ 13,147
Accounts receivable, net of allowance for doubtful accounts of $2,717 and $2,867	474,674	470,301
Inventories, net	1,635,690	1,525,800
Other current assets	99,653	71,526
Assets held for sale	139,907	190,881
Total current assets	2,368,180	2,271,655
Property and equipment, net	563,548	582,407
Goodwill	1,328,707	1,259,886
Franchise value	297,552	246,118
Other assets	93,094	109,736
Total assets	$ 4,651,081	$ 4,469,802
LIABILITIES AND STOCKHOLDERS EQUITY		
Floor plan notes payable	$ 1,108,688	$ 874,326
Floor plan notes payable non-trade	452,850	298,703
Accounts payable	290,911	301,592
Accrued expenses	257,126	214,544
Current portion of long-term debt	14,725	13,385
Liabilities held for sale	69,959	50,560
Total current liabilities	2,194,259	1,753,110
Long-term debt	831,771	1,168,666
Other long-term liabilities	277,135	252,373
Total liabilities	3,303,165	3,174,149
Commitments and contingent liabilities		
Stockholders Equity		
Preferred Stock, $0.0001 par value; 100 shares authorized; none issued and outstanding		
	9	9

Common Stock, $0.0001 par value, 240,000 shares authorized; 94,933 shares issued at June 30, 2007; 94,468 shares issued at December 31, 2006		
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	727,893	768,794
Retained earnings	529,959	492,704
Accumulated other comprehensive income	90,055	79,379
Treasury stock, at cost; 0 shares at June 30, 2007 and 5,306 shares at December 31, 2006		(45,233)
Total stockholders equity	1,347,916	1,295,653
Total liabilities and stockholders equity	$ 4,651,081	$ 4,469,802

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,	
	2007	2006 (Restated)*	2007	2006 (Restated)*
	(Unaudited) (In thousands, except per share amounts)			
Revenue:				
New vehicle	$ 1,831,369	$ 1,583,639	$ 3,479,067	$ 3,017,486
Used vehicle	829,057	631,982	1,617,464	1,187,322
Finance and insurance, net	75,698	65,680	144,666	123,745
Service and parts	357,377	306,924	710,310	600,905
Fleet and wholesale vehicle	288,137	249,502	538,570	462,725
Total revenues	3,381,638	2,837,727	6,490,077	5,392,183
Cost of sales:				
New vehicle	1,678,521	1,444,861	3,187,699	2,752,530
Used vehicle	763,636	577,581	1,490,807	1,082,744
Service and parts	156,407	137,730	313,501	269,806
Fleet and wholesale vehicle	287,089	248,064	534,586	458,554
Total cost of sales	2,885,653	2,408,236	5,526,593	4,563,634
Gross profit	495,985	429,491	963,484	828,549
Selling, general and administrative expenses	389,276	334,600	764,862	657,345
Depreciation and amortization	13,337	10,805	26,147	20,982
Operating income	93,372	84,086	172,475	150,222
Floor plan interest expense	(19,546)	(16,218)	(35,721)	(30,191)
Other interest expense	(12,917)	(11,436)	(31,776)	(23,383)
Equity in earnings of affiliates	2,529	1,968	1,708	3,118
Loss on debt redemption			(18,634)	
Income from continuing operations before income taxes and minority interests	63,438	58,400	88,052	99,766
Income taxes	(23,473)	(21,457)	(31,829)	(36,521)
Minority interests	(702)	(636)	(996)	(1,058)

Income from continuing operations		39,263		36,307		55,227		62,187
Income (loss) from discontinued operations, net of tax		1,092		386		(290)		(1,539)
Net income	$	40,355	$	36,693	$	54,937	$	60,648
Basic earnings per share:								
Continuing operations	$	0.42	$	0.39	$	0.59	$	0.67
Discontinued operations		0.01		0.00		0.00		(0.02)
Net income		0.43		0.39		0.58		0.65
Shares used in determining basic earnings per share		94,033		93,900		93,940		93,461
Diluted earnings per share:								
Continuing operations	$	0.42	$	0.38	$	0.58	$	0.66
Discontinued operations		0.01		0.00		0.00		(0.02)
Net income		0.43		0.39		0.58		0.64
Shares used in determining diluted earnings per share		94,532		94,636		94,483		94,499
Cash dividends per share	$	0.07	$	0.07	$	0.14	$	0.13

* See Note 1

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, 2007	Six Months Ended June 30, 2006 (Restated)*
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 54,937	$ 60,648
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	26,147	20,982
Undistributed earnings of equity method investments	(1,708)	(3,114)
Loss from discontinued operations, net of tax	290	1,539
Deferred income taxes	9,314	10,181
Loss on debt redemption	18,634	
Minority interests	996	1,058
Changes in operating assets and liabilities:		
Accounts receivable	14,703	19,402
Inventories	(66,974)	(121,157)
Floor plan notes payable	234,362	138,298
Accounts payable and accrued expenses	22,186	91,802
Other	(32,068)	(33,154)
Net cash from continuing operating activities	280,819	186,485
Investing Activities:		
Purchase of equipment and improvements	(73,193)	(110,910)
Proceeds from sale-leaseback transactions	76,509	21,443
Dealership acquisitions net, including repayment of sellers floorplan notes payable of $42,959 and $86,886, respectively	(151,528)	(225,220)
Other	13,264	
Net cash from continuing investing activities	(134,948)	(314,687)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement	241,500	200,000
Repayments under U.S. credit agreement	(241,500)	(440,000)
Redemption 9 5/8% Senior Subordinated debt	(314,439)	
Issuance of convertible subordinated debt		375,000
Net borrowings (repayments) of other long-term debt	(38,828)	4,463
Net borrowings of floor plan notes payable non-trade	154,147	22,250
Payment of deferred financing costs		(11,771)

Proceeds from exercises of options, including excess tax benefit		1,527		17,492
Repurchase of common stock				(18,955)
Dividends		(13,252)		(12,063)
Net cash from continuing financing activities		(210,845)		136,416
Discontinued operations:				
Net cash from discontinued operating activities		13,866		6,431
Net cash from discontinued investing activities		40,058		8,056
Net cash from discontinued financing activities		16,159		(4,645)
Net cash from discontinued operations		70,083		9,842
Net change in cash and cash equivalents		5,109		18,056
Cash and cash equivalents, beginning of period		13,147		8,957
Cash and cash equivalents, end of period	$	18,256	$	27,013
Supplemental disclosures of cash flow information:				
Cash paid for:				
Interest	$	76,418	$	50,874
Income taxes		12,598		14,244
Seller financed debt		4,953		

* See Note 1

See Notes to Consolidated Condensed Financial Statements

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

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
	(Unaudited) (Dollars in thousands)						
Balances, January 1, 2007	94,468,013	$ 9	$ 768,794	$ 492,704	$ 79,379	$ (45,233)	$ 1,295,653
Adoption of FIN 48 (Note 1)				(4,430)			(4,430)
Restricted stock	348,182		2,805				2,805
Exercise of options, including tax benefit of $652	116,385		1,527				1,527
Dividends				(13,252)			(13,252)
Foreign currency translation					10,209		10,209
Other					467		467
Retirement of Treasury Stock			(45,233)			45,233	
Net income				54,937			54,937
Balances, June 30, 2007	94,932,580	$ 9	$ 727,893	$ 529,959	$ 90,055	$	$ 1,347,916

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 generally accepted accounting principles have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2007 and December 31, 2006 and for the three and six month periods ended June 30, 2007 and 2006 is unaudited, but includes all adjustments which the management of the Company believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through June 30, 2007. The results for the interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2006, which are included as part of the Company s Annual Report on Form 10-K.

On July 2, 2007, the Company changed its corporate name from United Auto Group, Inc. to Penske Automotive Group, Inc.

On June 1, 2006, the Company effected a two-for-one split of its voting common stock in the form of a dividend. Shareholders of record as of May 11, 2006 received one additional share for each share they owned. All share and per share information herein reflects the stock split.

Tax returns filed by the Company in all jurisdictions are subject to periodic audit by various tax authorities, certain of which are currently underway. To date, no material adjustments have been proposed in connection with these audits, and the Company does not anticipate that these audits will result in a material change to its financial position or results of operations. FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes clarifies the accounting for uncertain tax positions, prescribing a minimum recognition threshold a tax position is required to meet before being recognized, and providing guidance on the derecognition, measurement, classification and disclosure relating to income taxes.

The Company adopted FIN No. 48 as of January 1, 2007, pursuant to which the Company recorded a $4,430 increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of January 1, 2007, the Company s total amount of unrecognized tax benefit was approximately $36,600, of which approximately $23,600 could favorably impact the Company s effective tax rate in the future. The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company does not expect the amount of unrecognized tax benefits to change materially in the next twelve months.

In September 2006, the SEC released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108), which permitted the Company to adjust for the cumulative effect of prior period immaterial errors in the carrying amount of assets and liabilities as of the beginning of 2006, with an offsetting adjustment to retained earnings as of January 1, 2006. SAB 108 requires the adjustment of any previously issued quarterly financial statements within 2006 for the effects of such errors on the quarters when the information is next presented. Such adjustments do not require previously filed reports with the SEC to be amended. In accordance with SAB 108, the Company adjusted its opening retained earnings as of January 1, 2006 and its financial results for the first three quarters of fiscal 2006 to correct an error related to operating leases with scheduled rent increases which were not accounted for on a straight line basis over the rental period. The error, which was previously determined to be immaterial on a quantitative and qualitative basis under the Company s assessment methodology for each individual period, impacted net income by $804 and $2,115 during the years ended December 31, 2005 and 2004, respectively. A summary of the impact of the error on previously issued 2006 quarterly financial statements follows:

		2006
Cumulative effect on stockholders equity as of January 1,	$	(10,792)
Effect on:		
Net income for the three months ended March 31,	$	(138)
Net income for the three months ended June 30,	$	(143)
Net income for the three months ended September 30,	$	(143)

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

Discontinued Operations

The Company accounts for dispositions as discontinued operations when it is evident that the operations and cash flows of a franchise being disposed of will be eliminated from the Company s on-going operations and that the Company will not have any significant continuing involvement in its operations. In reaching the determination as to whether the cash flows of a dealership will be eliminated from ongoing operations, the Company considers whether it is likely that customers will migrate to similar franchises that it owns in the same geographic market. The Company s consideration includes an evaluation of the brands 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 dealerships, the Company does not treat the disposition as a discontinued operation if the Company believes that the cash flows generated by the disposed franchise will be replaced by expanded operations of the remaining franchises. Combined financial information regarding dealerships accounted for as discontinued operations follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	$ 128,953	$ 234,117	$ 266,068	$ 460,622
Pre-tax income (loss)	819	921	(1,186)	(682)
Gain (loss) on disposal	956	(228)	1,189	(1,796)

	June 30, 2007	**December 31, 2006**
Inventories	$ 62,788	$ 100,965
Other assets	77,119	89,916
Total assets	$ 139,907	$ 190,881
Floor plan notes payable (trade and non-trade)	$ 53,714	$ 28,556
Other liabilities	16,245	22,004
Total Liabilities	$ 69,959	$ 50,560

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.

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

Intangible Assets

The Company s principal intangible assets relate to its franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations. Intangible assets are amortized over their estimated useful lives. The Company believes the franchise value of its dealerships has 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 without substantial cost; and
- The Company s history shows that manufacturers have not terminated franchise agreements.

The following is a summary of the changes in the carrying amount of goodwill and franchise value for the six months ended June 30, 2007:

	Goodwill	Franchise Value
Balance January 1, 2007	$ 1,259,886	$ 246,118
Additions during period	59,426	48,896
Foreign currency translation	9,395	2,538
Balance June 30, 2007	$ 1,328,707	$ 297,552

As of June 30, 2007, approximately $679,926 of the Company s goodwill is deductible for tax purposes. The Company has established deferred tax liabilities related to the temporary differences arising from such tax deductible goodwill.

New Accounting Pronouncements

SFAS No. 157, Fair Value Measurements defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure requirements relating to fair value measurements. SFAS No. 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of this pronouncement.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities permits entities to choose to measure many financial instruments and certain other items at fair value and consequently report unrealized gains and losses on such items in earnings. SFAS No. 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of this pronouncement.

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

2. Inventories

Inventories consisted of the following:

	June 30, 2007	December 31, 2006
New vehicles	$ 1,171,125	$ 1,083,990
Used vehicles	384,639	363,070
Parts, accessories and other	79,926	78,740
Total inventories	$ 1,635,690	$ 1,525,800

The Company receives non-refundable credits from certain vehicle manufacturers which are treated as a reduction of cost of sales when the vehicles are sold. Such credits amounted to $15,323 and $15,156 during the six months ended June 30, 2007 and 2006, respectively.

3. Business Combinations

The Company acquired 6 and 33 franchises during the six months ended June 30, 2007 and 2006, respectively. The Company s financial statements include the results of operations of the acquired dealerships from the date of acquisition. Purchase price allocations may be subject to final adjustment. A summary of the aggregate purchase price allocations for the six months ended June 30, 2007 and 2006 follows:

	June 30, 2007	June 30, 2006
Accounts receivable	$ 11,908	$ 14,020
Inventory	42,916	94,862
Other current assets	9	4,604
Property and equipment	4,559	9,386
Goodwill	52,253	99,072
Franchise value	48,896	31,294
Other assets	5,703	4,637
Current liabilities	(14,716)	(22,126)
Long term liabilities		(10,529)
Cash used in dealership acquisitions	$ 151,528	$ 225,220

The following unaudited consolidated pro forma results of operations of the Company for the three and six months ended June 30, 2007 and 2006 give effect to acquisitions consummated during 2007 and 2006 as if they had occurred on January 1, 2006.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues	$ 3,425,555	$ 3,168,856	$ 6,625,246	$ 6,068,523
Income from continuing operations	39,799	38,454	57,008	65,070
Net income	40,891	38,931	56,748	63,715

Income from continuing operations per diluted common share	$	0.42	$	0.41	$	0.60	$	0.69
Earnings per diluted common share	$	0.43	$	0.41	$	0.60	$	0.67

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

4. Floor Plan Notes Payable Trade and Non-trade

The Company finances the majority 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 is generally not required to make loan principal repayments prior to the sale of the financed vehicles. The Company typically makes monthly interest payments on the amount financed. 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 financed vehicles 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. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in defined benchmarks. 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.

5. Earnings Per Share

Basic earnings per share is computed using net income and weighted average shares of voting common stock outstanding. Diluted earnings per share is computed using net income and the weighted average shares of voting common stock outstanding, adjusted for the dilutive effect of stock options and restricted stock. 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, 2007 and 2006 follows:

	Three Months Ended June		Six Months Ended June 30,	
	2007	2006	2007	2006
Weighted average shares outstanding	94,033	93,900	93,940	93,461
Effect of stock options	228	334	236	552
Effect of restricted stock	271	402	307	486
Weighted average shares outstanding, including effect of dilutive securities	94,532	94,636	94,483	94,499

In addition, the Company has senior subordinated convertible notes outstanding which, under certain circumstances discussed in Note 6, may be converted to voting common stock. As of June 30, 2007 and 2006, no shares related to the senior subordinated convertible notes were included in the calculation of diluted earnings per share because the effect of such securities was not dilutive.

6. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2007	**December 31, 2006**
U.S. credit agreement	$	$
U.K. credit agreement	86,821	117,544
7.75% Senior Subordinated Notes due 2016	375,000	375,000
3.5% Senior Subordinated Convertible Notes due 2026	375,000	375,000
9.625% Senior Subordinated Notes due 2012		300,000
Other	9,675	14,507

Total long-term debt	846,496	1,182,051
Less: Current portion	(14,725)	(13,385)
Net long-term debt	$ 831,771	$ 1,168,666

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

U.S. Credit Agreement

The Company is party to a credit agreement with DaimlerChrysler Financial Services Americas 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, and for an additional $10,000 of availability for letters of credit, through September 30, 2009. The revolving loans bear interest between defined LIBOR plus 2.50% and defined LIBOR plus 3.50%.

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, a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA), a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2007, 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 not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. Credit Agreement. Outstanding letters of credit under the U.S. Credit Agreement amounted to $500 as of June 30, 2007. No other amounts were outstanding under this facility as of June 30, 2007.

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, which provides for a five year multi-option credit agreement, a fixed rate 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 £70,000 in revolving loans through August 31, 2011, which have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.65% and defined LIBOR plus 1.25%, (2) a £30,000 funded term loan which bears interest between 5.94% and 6.54% and is payable ratably in quarterly intervals commencing on June 30, 2007 through June 30, 2011, and (3) a seasonally adjusted overdraft line of credit for up to £30,000 that bears interest at the Bank of England Base Rate plus 1.00% and matures on August 31, 2011.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, the U.K. Subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. Credit Agreement, including: a ratio of earnings before interest and taxes plus rental payments to interest plus rental payments (as defined), a measurement of maximum capital expenditures, and a debt to EBITDA ratio (as defined). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2007, the Company was 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 not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. Credit Agreement. As of June 30, 2007, outstanding loans under the U.K. Credit Agreement amounted to £43,235 ($86,821).

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

7.75% Senior Subordinated Notes

On December 7, 2006, the Company issued $375,000 aggregate principal amount of 7.75% Senior Subordinated Notes (the 7.75% Notes) due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under the Company s credit agreements and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all wholly-owned domestic subsidiaries on a senior subordinated basis. 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, 2007, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

On January 31, 2006, the Company issued $375,000 aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes). The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by the Company. The Convertible Notes are unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by substantially all of the Company s wholly owned domestic subsidiaries. The Convertible Notes also contain customary negative covenants and events of default. As of June 30, 2007, the Company was in compliance with all negative covenants and there were no events of default.

Holders may convert based on a conversion rate of 42.2052 shares of common stock per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately $23.69 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period commencing after March 31, 2006, 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.

If a holder elects to convert its Convertible Notes in connection with certain events that constitute a change of control on or before April 6, 2011, the Company will pay, to the extent described in the Indenture, a make-whole premium by increasing the conversion rate applicable to such Convertible Notes. In addition, the Company will pay contingent interest in cash, commencing with any six-month period from April 1 to September 30 and from October 1 to March 31, beginning on April 1, 2011, if the average trading price of a Convertible Note for the five trading days ending on the third trading day immediately preceding the first day of that six-month period equals 120% or more of the principal amount of the Convertible Note.

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

On or after April 6, 2011, the Company may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date. Holders of the Convertible Notes may require the Company to purchase all or a portion of their Securities for cash on each of April 1, 2011, April 1, 2016 and 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.

9.625% Senior Subordinated Notes

In March 2007, the Company redeemed its $300,000 aggregate principal amount of 9.625% Senior Subordinated Notes due 2012 (the 9.625% Notes) at a price of 104.813%. The 9.625% Notes were unsecured senior subordinated notes and were subordinate to all existing senior debt, including debt under the Company s credit agreements and floor plan indebtedness. The Company incurred an $18,634 pre-tax charge in connection with the redemption, consisting of a $14,439 redemption premium and the write-off of $4,195 of unamortized deferred financing costs.

7. Stockholders Equity

On January 26, 2006, the Company repurchased 1,000 shares of its outstanding common stock for $18,960, or $18.96 per share. These shares and all other shares held as treasury stock were retired during the second quarter of 2007.

Comprehensive income

Other comprehensive income includes changes in the fair value of interest rate swap agreements, foreign currency translation gains and losses, and available for sale securities valuation adjustments that have 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,	
	2007	2006	2007	2006
Net income	$ 40,355	$ 36,693	$ 54,937	$ 60,648
Other comprehensive income				
Foreign currency translation	8,110	25,172	10,209	29,165
Other	289	936	467	2,241
Comprehensive income	$ 48,754	$ 62,801	$ 65,613	$ 92,054

8. Interest Rate Swaps

The Company is party to an interest rate swap agreement through January 2008 pursuant to which a notional $200,000 of its U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of the LIBOR based U.S. floor plan borrowings. During the six months ended June 30, 2007, the swap reduced the weighted average interest rate on floor plan borrowings by approximately 0.1%. As of June 30, 2007, the Company expects approximately $567 associated with the swap to be recognized as a reduction of interest expense over the next twelve months.

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

9. Commitments and Contingent Liabilities

The Company is involved in litigation which may relate to issues with customers, employment related matters, class action claims, purported class action claims, and claims brought by governmental authorities. As of June 30, 2007, 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.

The Company is party to a joint venture agreement with respect to one of the Company s franchises pursuant to which the Company is required to repurchase its partner s interest in July 2008. The Company expects this payment to be approximately $4.0 million.

The Company leases the majority of its dealership facilities and corporate offices under non-cancelable operating lease agreements with terms from three to thirty years. Such leases typically include escalation clauses tied to an inflation index such as the Consumer Price Index and additional option periods of up to thirty years that are available to the Company.

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

10. Consolidating Condensed Financial Information

The following tables include consolidating condensed financial information as of June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 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, 2007

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Cash and cash equivalents	$ 18,256	$	$	$ 3,956	$ 14,300
Accounts receivable, net	474,674	(189,588)	189,588	280,522	194,152
Inventories, net	1,635,690			865,595	770,095
Other current assets	99,653		5,478	30,186	63,989
Assets held for sale	139,907			126,100	13,807
Total current assets	2,368,180	(189,588)	195,066	1,306,359	1,056,343
Property and equipment, net	563,548		5,025	309,807	248,716
Intangible assets	1,626,259			1,018,202	608,057
Other assets	93,094	(1,145,152)	1,153,994	22,890	61,362
Total assets	$ 4,651,081	$ (1,334,740)	$ 1,354,085	$ 2,657,258	$ 1,974,478
Floor plan notes payable	$ 1,108,688	$	$	$ 547,828	$ 560,860
Floor plan notes payable non-trade	452,850			291,680	161,170
Accounts payable	290,911		4,447	104,727	181,737
Accrued expenses	257,126	(189,588)	1,722	90,769	354,223
Current portion of long-term debt	14,725			271	14,454
Liabilities held for sale	69,959			53,627	16,332
Total current liabilities	2,194,259	(189,588)	6,169	1,088,902	1,288,776
Long-term debt	831,771	(258,250)		752,874	337,147
Other long-term liabilities	277,135			228,613	48,522
Total liabilities	3,303,165	(447,838)	6,169	2,070,389	1,674,445

Total stockholders equity	1,347,916	(886,902)	1,347,916	586,869	300,033
Total liabilities and stockholders equity	$ 4,651,081	$ (1,334,740)	$ 1,354,085	$ 2,657,258	$ 1,974,478

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED BALANCE SHEET
December 31, 2006

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Cash and cash equivalents	$ 13,147	$	$	$ 2,691	$ 10,456
Accounts receivable, net	470,301	(200,621)	200,621	295,924	174,377
Inventories, net	1,525,800			792,709	733,091
Other current assets	71,526		9,426	23,456	38,644
Assets held for sale	190,881			175,934	14,947
Total current assets	2,271,655	(200,621)	210,047	1,290,714	971,515
Property and equipment, net	582,407		3,824	318,697	259,886
Intangible assets	1,506,004			942,079	563,925
Other assets	109,736	(1,078,710)	1,084,547	42,425	61,474
Total assets	$ 4,469,802	$ (1,279,331)	$ 1,298,418	$ 2,593,915	$ 1,856,800
Floor plan notes payable	$ 874,326	$	$	$ 416,068	$ 458,258
Floor plan notes payable non-trade	298,703	(35,000)		139,933	193,770
Accounts payable	301,592		2,738	103,600	195,254
Accrued expenses	214,544	(165,621)	27	63,762	316,376
Current portion of long-term debt	13,385			3,057	10,328
Liabilities held for sale	50,560			31,567	18,993
Total current liabilities	1,753,110	(200,621)	2,765	757,987	1,192,979
Long-term debt	1,168,666	(259,706)		1,050,932	377,440
Other long-term liabilities	252,373			237,014	15,359
Total liabilities	3,174,149	(460,327)	2,765	2,045,933	1,585,778
Total stockholders equity	1,295,653	(819,004)	1,295,653	547,982	271,022
Total liabilities and stockholders equity	$ 4,469,802	$ (1,279,331)	$ 1,298,418	$ 2,593,915	$ 1,856,800

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended June 30, 2007

Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In Thousands)		