PENSKE AUTOMOTIVE GROUP, INC.
Form 10-K
February 24, 2010

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

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

For the fiscal year ended December 31, 2009

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
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Voting Common Stock, par value $0.0001 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer þ	Accelerated filer o	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

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2009 was $634,390,781.

As of February 18, 2010, there were 92,139,797 shares of voting common stock outstanding.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the registrant s proxy statement for the 2010 Annual Meeting of the Stockholders to be held May 5, 2010 are incorporated by reference into Part III, Items 10-14.

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PART I

Item 1. *Business*

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of December 31, 2009, we owned and operated 158 franchises in the U.S. and 148 franchises outside of the U.S., primarily in the U.K. We offer a full range of vehicle brands with 95% of our total retail revenue in 2009 generated from brands of non-U.S. based manufacturers, and 65% generated from premium brands, such as Audi, BMW, Cadillac and Porsche. 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 63% of our total revenues in 2009 generated by operations in the U.S. and Puerto Rico and 37% 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 more than 40 miles per gallon on the highway and is an ultra-low emissions vehicle as certified by the State of California Air Resources Board. As of December 31, 2009, smart USA had 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.

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). 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.

We believe our diversified income streams may mitigate the historical cyclicality found in some elements of the automotive sector. Revenues from higher margin service and parts sales are typically less cyclical than retail vehicle sales, and generate the largest part of our gross profit. The following graphic shows the percentage of our retail revenues by product area and their respective contribution to our overall gross profit in 2009:

Outlook

During 2009, there has been continued weakness in consumer confidence and spending in the markets in which we operate, which we believe has resulted in reduced customer traffic in our dealerships. While we have experienced increased vehicle sales and customer traffic in recent quarters, we expect our business to remain significantly impacted by difficult economic conditions in 2010. For a more detailed discussion of our financial and operating results, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Long-Term Business Strategy

We believe offering our customers superior customer service in a premium location fosters a long-term relationship, which helps generate repeat and referral business, particularly in our higher-margin service and parts business. We believe our focus on developing a loyal customer base has helped generate incremental vehicle and service and parts sales. In addition, our large number of dealerships, geographically concentrated by region, allows us the opportunity to achieve cost savings and implement best practices. In addition, although we have reduced acquisition and facility investment in response to recent economic conditions, we remain committed to our long-term strategy to sell and service outstanding vehicle brands in premium facilities.

Offer Outstanding Brands in Premium Facilities

We have the highest percentage of revenues from foreign and luxury brands among the U.S. based publicly-traded automotive retailers. Since 1999, foreign brands representing 85% of our U.S. revenue (Toyota/Lexus, Honda/Acura, BMW/MINI, Mercedes-Benz, Audi and Nissan/Infiniti) have increased their U.S. market share by more than 80%. We believe luxury and foreign brands will continue to offer us the opportunity to generate same-store growth, including higher margin service and parts sales. Our revenue mix consists of 65% related to premium brands, 30% related to volume foreign brands, and 5% relating to brands of U.S. based manufacturers.

The following chart reflects our percentage of total revenues by brand in 2009:

We sell and service outstanding automotive brands in our world-class facilities, which are located in attractive geographic markets. We believe offering these brands in world-class facilities promotes repeat and referral business, particularly in our higher margin service and parts operations. Where advantageous, we attempt to aggregate our dealerships in a campus setting in order to build a destination location for our customers, which we believe helps to drive increased customer traffic to each of the brands at the location. This strategy also creates an opportunity to reduce personnel expenses, consolidate advertising and administrative expenses and leverage operating expenses over a larger base of dealerships. Our dealerships have generally achieved new unit vehicle sales that are significantly higher than industry averages for the brands we sell.

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The following is a list of our larger dealership campuses or groups:

Location	Square Feet	Service Bays	2009 Revenue (millions)	Franchises
North Scottsdale, Arizona	450,000	253	$ 376.8	Acura, Aston Martin, Audi, BMW, Bentley, Bugatti, Jaguar, Land Rover, Lamborghini, MINI, Porsche, Rolls-Royce, Volkswagen
San Diego, California	387,000	343	$ 445.4	Acura, BMW, Lexus, Mercedes-Benz, Scion, smart, Toyota
Turnersville, New Jersey	303,000	177	$ 304.7	Acura, Audi, BMW, Cadillac, Chevrolet, Honda, HUMMER, Hyundai, Nissan, Scion, Toyota
Inskip, Rhode Island	319,000	176	$ 291.2	Acura, Audi, Bentley, BMW, Infiniti, Lexus, Mercedes-Benz, MINI, Nissan, Porsche, smart
Tyson s Corner, Virginia	191,000	138	$ 214.7	Audi, Aston Martin, Mercedes-Benz, Porsche, smart
Fayetteville, Arkansas	129,000	109	$ 165.4	Acura, Chevrolet, Honda, HUMMER, Scion, Toyota

By way of example, our Scottsdale 101 Auto Mall features ten separate showrooms with approximately 450,000 square feet of facilities. Typically, customers may choose from an inventory of over 1,250 new and used vehicles, and have access to 253 service bays with the capacity to service approximately 1,000 vehicles per day. We will continue to evaluate other opportunities to aggregate our facilities to seek the benefits of a destination location.

Maintain Variable Cost Structure and Diversified Revenue Stream

A significant percentage of our operating expenses are variable, including sales compensation, floor plan interest expense (inventory-secured financing) and advertising, which we believe we can manage over time to reflect economic trends. Gross profit generated from our service and parts business absorbs a substantial portion of our fixed expenses, excluding salespersons compensation and advertising. In addition, recent experience has shown that demand for our higher-margin service and parts business is less affected by economic cycles than demand for new vehicles and that we have been able to manage certain costs (such as advertising and compensation expense) in response to general industry conditions.

We benefit from a diversified revenue mix because of the multiple revenue streams in a traditional automotive dealership (new vehicles, used vehicles, finance and insurance, and service and parts operations), revenue relating to the distribution of the smart fortwo vehicle, and returns relating to our joint venture investments. We believe this diversification mitigates the cyclicality that has historically impacted some elements of the automotive sector. We are further diversified within our retail automotive operations due to our brand mix and geographical dispersion. Our geographical dispersion includes dealerships in the U.S., Puerto Rico, and abroad, predominately in the U.K.

Diversification Outside the U.S.

One of the unique attributes of our operations versus our peers is our diversification outside the U.S. Approximately 37% of our consolidated revenue during 2009 was generated from operations located outside the U.S. and Puerto Rico, predominately in the U.K. According to industry data, the U.K. represented the fourth largest retail automotive market in Western Europe in 2009 with approximately 2.0 million new vehicle registrations. Our brand mix in the U.K. is predominantly premium. We believe that as of December 31, 2009, we were among the largest Audi, Bentley, BMW, Ferrari, Land Rover, Lexus, Mercedes-Benz, Maserati and Porsche dealers in the U.K. based on number of dealerships. Additionally, we operate a number of dealerships in Germany, some through joint ventures with experienced local partners, which sell and service Audi, BMW, Lexus, MINI, Porsche, Toyota, Volkswagen and various other premium brands.

smart Distributorship

smart USA, a wholly-owned subsidiary, is the exclusive distributor of the smart fortwo vehicle in U.S. and Puerto Rico. The smart fortwo is manufactured by Mercedes-Benz Cars and is a Daimler brand. As distributor, smart USA is responsible for maintaining a vehicle dealership network in the U.S. and Puerto Rico. As of December 31, 2009, smart USA had certified a network of more than 75 smart dealerships in 36 states, nine of which are owned and operated by us. smart USA wholesaled 27,052 smart fortwo vehicles in 2008 and 13,772 smart fortwo vehicles in 2009.

Investment in Penske Truck Leasing

In June 2008, we acquired a 9.0% limited partnership interest in PTL. 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. We currently expect to receive annual pro-rata cash distributions of a portion of the partnership s profits and to realize U.S. cash tax savings relating to tax attributes as a result of this investment.

Expand Revenues at Existing Locations and Increase Higher-Margin Businesses

We aim to increase same-store sales, with a particular focus on developing our higher-margin businesses such as finance, insurance and other product sales and service, parts and collision repair services.

Increase Same-Store Sales. We believe our emphasis on superior customer service and world class facilities will contribute to increases in same-store sales over time. We have added a significant number of incremental service bays in recent years in order to better accommodate our customers and further enhance our service and parts revenues.

Grow Finance, Insurance and Other Aftermarket Revenues. Each sale of a vehicle provides us the opportunity to assist in financing the sale of a vehicle, to sell the customer an extended service contract or other insurance product, and to sell aftermarket products, such as entertainment systems, security systems, satellite radios and protective coatings. In order to improve our finance and insurance business, we focus on enhancing and standardizing our salesperson training programs, strengthening our product offerings and standardizing our selling processes through a menu-driven product offering.

Expand Service and Parts and Collision Repair Revenues. In recent years, we have added a significant number of service bays at our dealerships in an effort to expand this higher-margin element of our business. Many of today s vehicles are complex and require sophisticated equipment and specially trained technicians to perform certain services. Unlike independent service shops, our dealerships are authorized to perform this work under warranties provided by manufacturers. We believe that our brand mix and the complexity of today s vehicles, combined with our focus on customer service and superior facilities, will contribute to increases in our service and parts revenue. We also operate 25 collision repair centers which are operated as an integral part of our dealership operations. As a result, the repair centers benefit from the dealerships repeat and referral business.

Continue Growth through Targeted Acquisitions

We believe that attractive acquisition opportunities continue to exist for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. The automotive retail market provides us with significant growth opportunities in each of the markets in which we operate. We generally seek to acquire dealerships with high-growth automotive brands in highly concentrated or growing demographic areas. We target larger dealership operations that will benefit from our management expertise, manufacturer relations and scale of operations, as well as smaller, single location dealerships that can be effectively integrated into our existing operations.

Strengthen Customer Loyalty

We strive to achieve and maintain superior levels of customer satisfaction by providing high-quality products and services to meet our customers needs. By offering outstanding brands in premium facilities, one-stop shopping convenience, competitive pricing and a well-trained and knowledgeable sales staff, we aim to forge lasting relationships with our customers, enhance our reputation in the community, and create the opportunity for significant repeat and referral business. We believe that customer loyalty contributes directly to increases in same-store sales. We monitor customer satisfaction data accumulated by manufacturers to track the performance of dealership operations, and use it as a factor in determining the compensation of general managers and sales and service personnel in our dealerships. We believe that our high customer satisfaction results have directly contributed to our operating results.

Leverage Scale and Implement Best Practices

We seek to build scale in many of the markets where we have dealership operations. Our desire is to reduce or eliminate redundant administrative costs such as accounting, information technology systems and other general administrative costs. In addition, we seek to leverage our industry knowledge and experience to foster communication and cooperation between like brand dealerships throughout our organization. Senior management and dealership management meet regularly to review the operating performance of our dealerships, examine industry trends and, where appropriate, implement specific operating improvements. Key financial information is discussed and compared to other dealerships across all markets. This frequent interaction facilitates implementation of successful strategies throughout the organization so that each of our dealerships can benefit from the successes of our other dealerships and the knowledge and experience of our senior management.

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Industry Overview

In 2008, the majority of automotive retail sales in the U.S. were generated by the approximately 20,500 franchised dealerships, producing revenues of approximately $598.0 billion, including 57% from new vehicle sales, 29% from used vehicle sales and 14% from service and parts sales. Dealerships also offer a wide range of higher-margin products and services, including extended service contracts, financing arrangements and credit insurance. The National Automobile Dealers Association figures noted above include finance and insurance revenues within either new or used vehicle sales, as sales of these products are usually incremental to the sale of a vehicle. Germany and the U.K. represented the first and fourth largest European automotive retail markets in 2009, with new car registrations of 3.8 million and 2.0 million vehicles, respectively. In 2008, U.K. and German automotive sales exceeded $158.0 billion and $392.0 billion, respectively. Combined, the UK and German markets make up approximately 40% of the European market, based on new vehicle unit registrations.

The automotive retail industry in the U.S and Europe is highly fragmented and largely privately held. In the U.S., publicly held automotive retail groups account for less than 10% of total industry revenue. According to industry data, the number of U.S. franchised dealerships has declined from approximately 24,000 in 1990 to approximately 20,500 as of January 1, 2009. Although significant consolidation has already taken place, the industry remains highly fragmented, with more than 90% of the U.S. industry s market share remaining in the hands of smaller regional and independent players. We believe that further consolidation in the industry is probable due to the significant capital requirements of maintaining manufacturer facility standards, the limited number of viable alternative exit strategies for dealership owners and the impact of the current economic environment on smaller less well capitalized dealership groups.

Generally, new vehicle unit sales are cyclical and, historically, fluctuations have been influenced by factors such as manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and other general economic factors. However, from a profitability perspective, automotive retailers have historically been less vulnerable than automobile manufacturers to declines in new vehicle sales. We believe this may be due to the retailers more flexible expense structure (a significant portion of the automotive retail industry s costs are variable, relating to sales personnel, advertising and inventory finance cost) and their diversified revenue stream. In addition, automobile manufacturers may offer various dealer incentives when sales are slow, which further increases the volatility in profitability for automobile manufacturers and may help to decrease volatility for automotive retailers.

Acquisitions

We routinely acquire and dispose of franchises. Our financial statements include the results of operations of acquired dealerships from the date of acquisition. The following table sets forth information with respect to our current dealerships acquired or opened from January 2007 to December 31, 2009:

Dealership	**Date Opened or Acquired**	**Location**	**Franchises**
U.S.			
Landers Ford Lincoln Mercury	01/07	Benton, Arkansas	Ford, Lincoln, Mercury
Lexus of Edison	03/07	Edison, NJ	Lexus
Round Rock Toyota-Scion	04/07	Round Rock, TX	Toyota, Scion
Round Rock Hyundai	04/07	Round Rock, TX	Hyundai
Round Rock Honda	04/07	Round Rock, TX	Honda
Inskip MINI	05/07	Warwick, RI	MINI
Royal Palm Toyota-Scion	01/08	Royal Palm, FL	Toyota, Scion
smart center Bedford	01/08	Bedford, OH	smart
smart center Bloomfield	01/08	Bloomfield Hills, MI	smart
smart center Chandler	01/08	Chandler, AZ	smart
smart center Fairfield	01/08	Fairfield, CT	smart
smart center Round Rock	01/08	Round Rock, TX	smart

smart center San Diego	01/08	San Diego, CA	smart
smart center Tyson s Corner	01/08	Tyson's Corner, VA	smart
smart center Warwick	01/08	Warwick, RI	smart
Bingham Toyota	04/08	Clovis, CA	Toyota Scion

Dealership	Date Opened or Acquired	Location	Franchises
U.S. (continued)			
Peter Pan BMW	07/08	San Mateo, CA	BMW
Pioneer Ford	03/09	Goodyear, AZ	Ford
Lamborghini Scottsdale	04/09	Phoenix, AZ	Lamborghini
Audi Turnersville	06/09	Turnersville, NJ	Audi
smart center Stevens Creek	06/09	Santa Clara, CA	smart
Outside the U.S.			
Audi Leicester	06/07	Leicester, England	Audi
Audi Nottingham	06/07	Nottingham, England	Audi
Toyota World Solihull	09/07	West Midlands, England	Toyota
Maranello Ferrari Egham	10/07	Surrey, England	Ferrari, Maserati
Audi Derby	04/08	Derby, England	Audi
Bentley Leicester	05/08	Leicester, England	Bentley
Bentley Norwich	05/08	Norfolk, England	Bentley
Gatwick Honda	06/08	West Sussex, England	Honda
Penske Sportwagenzentrum	07/08	Mannheim, Germany	Porsche
Huddersfield Audi	12/08	West Yorkshire, England	Audi
Huddersfield SEAT	12/08	West Yorkshire, England	SEAT
Harrogate Volkswagen	12/08	West Yorkshire, England	Volkswagen
Huddersfield Volkswagen	12/08	West Yorkshire, England	Volkswagen
Leeds Volkswagen	12/08	West Yorkshire, England	Volkswagen
Porsche Centre Leicester	03/09	Leicester, England	Porsche
Porsche Centre Solihull	03/09	West Midlands, England	Porsche
Graypaul Birmingham	03/09	Worcestershire, England	Ferrari/Maserati
Guy Salmon Land Rover Bristol	09/09	Bristol, England	Land Rover

In 2009 and 2008, we disposed of 5 and 26 dealerships, respectively, that we believe were not integral to our strategy or operations. We expect to continue to pursue acquisitions and selected dispositions in the future.

Dealership Operations

Franchises. The following charts reflect our franchises by location and our dealership mix by franchise as of December 31, 2009:

Location	Franchises
Arizona	21
Arkansas	14
California	22
Connecticut	5
Florida	8
Georgia	4
Indiana	2
Michigan	7
Minnesota	2
Nevada	2
New Jersey	20
New York	4
Ohio	6

Franchises	U.S.	Non-U.S.	Total
Toyota/Lexus/Scion	39	13	52
BMW/MINI	12	30	42
Mercedes-Benz/smart	16	19	35
Honda/Acura	27	2	29
Chrysler/Jeep/Dodge	9	15	24
Jaguar/Land Rover	2	19	21
Audi	8	12	20
Ferrari/Maserati	6	12	18
Ford/Mazda/Volvo	10	3	13
Porsche	5	7	12
General Motors	9		9
Bentley	2	5	7
Nissan/Infiniti	7		7

Puerto Rico	15	Others	6	11	17
Rhode Island	11	Total	158	148	306
Tennessee	2				
Texas	8				
Virginia	5				
Total U.S.	158				
U.K.	139				
Germany	9				
Total Foreign	148				
Total Worldwide	306				

Management. Each dealership or group of dealerships has independent operational and financial management responsible for day-to-day operations. We believe experienced local managers are better qualified to make day-to-day decisions concerning the successful operation of a dealership and can be more responsive to our customers needs. We seek local dealership management that not only has experience in the automotive industry, but also is familiar with the local dealership s market. We also have regional management that oversees operations at the individual dealerships and supports the dealerships operationally and administratively.

New Vehicle Retail Sales. In 2009, we sold 140,914 new vehicles which generated 53.0% of our retail revenue and 24.3% of our retail gross profit. We sell forty brands of domestic and import family, sports and premium cars, light trucks and sport utility vehicles in the U.S., Puerto Rico, the U.K. and Germany. New vehicles are typically acquired by dealerships directly from the manufacturer. We strive to maintain outstanding relations with the automotive manufacturers, based in part on our long-term presence in the automotive retail market, our commitment to providing premium facilities, the reputation of our management team and the consistent high sales volume from our dealerships. Our dealerships finance the purchase of most new vehicles from the manufacturers through floor plan financing provided by various manufacturers captive finance companies.

Used Vehicle Retail Sales. In 2009, we sold 102,457 used vehicles, which generated 29.5% of our retail revenue and 14.4% of our retail gross profit. We acquire used vehicles from various sources, including auctions open only to authorized new vehicle dealers, public auctions, trade-ins from consumers in connection with their purchase of a new vehicle from us and lease expirations or terminations. Vehicles returned at the end of a lease provide us with low mileage, late model vehicles for our used vehicle sales operations. We clean, repair and recondition all used vehicles we acquire for resale. We believe we may benefit from the opportunity to retain used vehicle retail customers as service and parts customers.

To improve customer confidence in our used vehicle inventory, each of our dealerships participates in all available manufacturer certification processes for used vehicles. If certification is obtained, the used vehicle owner is typically provided benefits and warranties similar to those offered to new vehicle owners by the applicable manufacturer. Several of our dealerships have implemented software tools which assist in procuring and selling used vehicles. Through our scale in many markets, we have also implemented closed-bid auctions that allow us to bring a large number of vehicles we do not intend to retail to a central market for other dealers or wholesalers to purchase. In the U.K., we also offer used vehicles for wholesale via an online auction. We believe these strategies have resulted in greater operating efficiency and helped to reduce costs associated with maintaining optimal inventories.

Vehicle Finance, Extended Service and Insurance Sales. Finance and insurance sales represented 2.5% of our retail revenue and 14.3% of our retail gross profit in 2009. At our customers option, our dealerships can arrange third-party financing or leasing for our customers vehicle purchases. We typically receive a portion of the cost of financing or leasing paid by the customer for each transaction as compensation. While these services are generally non-recourse to us, we are subject to chargebacks in certain circumstances, such as default under a financing arrangement or prepayment. These chargebacks vary by finance product but typically are limited to the fee income we receive absent a breach of our agreement with the third party finance or leasing company. We provide training to our finance and insurance personnel to help assure compliance with internal policies and procedures, as well as applicable state regulations. We also impose limits on the amount of revenue per transaction we may receive from certain finance products as part of our compliance efforts.

We also offer our customers various vehicle warranty and extended protection products, including extended service contracts, maintenance programs, guaranteed auto protection (known as GAP, this protection covers the shortfall between a customer s loan balance and insurance payoff in the event of a casualty), lease wear and tear insurance and theft protection products. The extended service contracts and other products that our dealerships currently offer to customers are underwritten by independent third parties, including the vehicle manufacturers captive finance subsidiaries. Similar to finance transactions, we are subject to chargebacks relating to fees earned in connection with the sale of certain extended protection products. We also offer for sale other aftermarket products, including satellite radio service, cellular phones, security systems and protective coatings. We offer finance and insurance products using a menu process, which is designed to ensure that we offer our customers the complete range of finance, insurance, protection, and other aftermarket products in a transparent manner.

Service and Parts Sales. Service and parts sales represented 15.0% of our retail revenue and 47.0% of our retail gross profit in 2009. We generate service and parts sales in connection with warranty and non-warranty work performed at each of our dealerships. We believe our service and parts revenues benefit from our increased service capacity and the increasingly complex technology used in vehicles that makes it difficult for independent repair facilities to maintain and repair today s automobiles.

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A goal of each of our dealerships is to make each vehicle purchaser a customer of our service and parts department. Our dealerships keep detailed records of our customers maintenance and service histories, and many dealerships send reminders to customers when vehicles are due for periodic maintenance or service. Many of our dealerships have extended evening and weekend service hours for the convenience for our customers. We also operate 25 collision repair centers, each of which is operated as an integral part of our dealership operations.

Internet Presence. We believe the majority of our customers will consult the Internet for new and used automotive information. In order to attract customers and enhance our customer service, each of our dealerships maintains its own website. Our corporate website, www.penskeautomotive.com, provides a link to each of our dealership websites allowing consumers to source information and communicate directly with our dealerships locally. In the U.S. and U.K., all of our dealership websites are presented in common formats (except where otherwise required by manufacturers) which helps to minimize costs and provide a consistent image across dealerships. In addition, many automotive manufacturers websites provide links to our dealership websites and, in the U.K., manufacturers also provide a website for the dealership. Using our dealership websites, consumers can review our vehicle inventory and access detailed information relating to the purchase process, including photos, prices, promotions, specifications, reviews and tools to schedule service appointments. We believe these features make it easier for consumers to meet all of their automotive research needs.

smart USA. smart USA, a wholly-owned subsidiary, is the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico and is responsible for maintaining a vehicle dealership network. smart USA generates revenue for each vehicle and part wholesaled to the smart USA certified network. In 2009, smart USA wholesaled 13,772 smart fortwo vehicles as well as various service parts and accessories, generating 1.9% of our consolidated revenue and 1.1% of our consolidated gross profit. In an effort to stimulate sales of the smart fortwo, smart USA and DCFS USA (Daimler Financial) enter into various marketing and leasing arrangements.

Non-U.S. Operations. Sytner Group, our wholly-owned U.K. subsidiary, is one of the leading retailers of premium vehicles in the U.K. As of December 31, 2009, Sytner operated 139 franchises, representing more than twenty brands. Revenues attributable to Sytner Group for the years ended December 31, 2009, 2008 and 2007 were \$3.4 billion, \$4.1 billion and \$4.6 billion, respectively.

The following is a list of all of our dealerships as of December 31, 2009:

U.S. DEALERSHIPS

ARIZONA
Acura North Scottsdale
Audi of Chandler
Audi North Scottsdale
Bentley Scottsdale
BMW North Scottsdale
Bugatti Scottsdale
Jaguar North Scottsdale
Lamborghini Scottsdale
Land Rover North Scottsdale
Lexus of Chandler
Mercedes-Benz of Chandler
MINI North Scottsdale
Pioneer Ford
Porsche North Scottsdale
Rolls-Royce Scottsdale
Scottsdale Aston Martin
Scottsdale Ferrari Maserati
Scottsdale Lexus
smart center Chandler
Tempe Honda
Volkswagen North Scottsdale

ARKANSAS
Acura of Fayetteville
Chevrolet/HUMMER of Fayetteville
Honda of Fayetteville
Landers Chevrolet HUMMER
Landers Chrysler Jeep Dodge
Landers Ford Lincoln Mercury
Toyota-Scion of Fayetteville

CALIFORNIA
Acura of Escondido
Audi Escondido
Audi Stevens Creek
Bingham Toyota Scion
BMW of San Diego
Capitol Honda
Honda Mission Valley
Honda North
Honda of Escondido
Kearny Mesa Acura
Kearny Mesa Toyota-Scion
Lexus Kearny Mesa
Los Gatos Acura
Mazda of Escondido
Mercedes-Benz of San Diego
Peter Pan BMW
Porsche of Stevens Creek
smart center San Diego
smart center Stevens Creek

CONNECTICUT
Audi of Fairfield
Honda of Danbury
Mercedes-Benz of Fairfield
Porsche of Fairfield
smart center Fairfield

FLORIDA
Central Florida Toyota-Scion
Royal Palm Mazda
Palm Beach Toyota-Scion
Royal Palm Toyota-Scion
Royal Palm Nissan

GEORGIA
Atlanta Toyota-Scion
Honda Mall of Georgia
United BMW of Gwinnett
United BMW of Roswell

INDIANA
Penske Chevrolet
Penske Honda

MICHIGAN
Honda Bloomfield
Rinke Cadillac
Rinke Toyota-Scion
smart center Bloomfield
Toyota-Scion of Waterford

MINNESOTA
Motorwerks BMW/MINI

NEW JERSEY
Acura of Turnersville
Audi Turnersville
BMW of Turnersville
Chevrolet HUMMER Cadillac of Turnersville
BMW of Tenafly
Lexus of Edison
Ferrari Maserati of Central New Jersey
Gateway Toyota-Scion
Hudson Nissan
Hudson Toyota-Scion
Hyundai of Turnersville
Lexus of Bridgewater
Nissan of Turnersville
Toyota-Scion of Turnersville

NEW YORK
Honda of Nanuet
Mercedes-Benz of Nanuet
Westbury Toyota-Scion

OHIO
Honda of Mentor
Infiniti of Bedford
Mercedes-Benz of Bedford
smart center Bedford
Toyota-Scion of Bedford

RHODE ISLAND
Inskip Acura
Inskip Audi
Inskip Autocenter (Mercedes-Benz)
Inskip Bentley Providence
Inskip BMW
Inskip Infiniti
Inskip Lexus
Inskip MINI
Inskip Nissan
Inskip Porsche
smart center Warwick

TENNESSEE
Wolfchase Toyota-Scion

TEXAS
BMW of Austin
Goodson Honda North
Goodson Honda West
Round Rock Honda
Round Rock Hyundai
Round Rock Toyota-Scion
smart center Round Rock

VIRGINIA
Aston Martin of Tysons Corner
Audi of Tysons Corner
Mercedes-Benz of Tysons Corner
Porsche of Tysons Corner
smart center Tysons Corner

Marin Honda	Honda of Turnersville

NON-U.S. DEALERSHIPS

U.K.

Audi

Bradford Audi
Derby Audi
Harrogate Audi
Huddersfield Audi
Leeds Audi
Leicester Audi
Mayfair Audi
Nottingham Audi
Reading Audi
Slough Audi
Wakefield Audi
West London Audi

Bentley

Bentley Birmingham
Bentley Edinburgh
Bentley Leicester
Bentley Manchester

BMW/MINI

Sytner Birmingham
Sytner Cardiff
Sytner Chigwell
Sytner Coventry
Sytner Docklands
Sytner Harold Wood
Sytner High Wycombe
Sytner Leicester
Sytner Newport
Sytner Nottingham
Sytner Oldbury
Sytner Sheffield
Sytner Solihull
Sytner Sunningdale
Sytner Sutton

Chrysler/Jeep/Dodge

Kings Cheltenham & Gloucester
Kings Manchester
Kings Newcastle
Kings Swindon
Kings Teesside

Ferrari/Maserati

Graypaul Nottingham
Maranello Egham Ferrari/Maserati

Honda

Honda Gatwick
Honda Redhill

Jaguar/Land Rover

Guy Salmon Jaguar Coventry
Guy Salmon Jaguar/Land Rover Ascot
Guy Salmon Jaguar/Land Rover Gatwick
Guy Salmon Jaguar/Land Rover Maidstone
Guy Salmon Jaguar/Land Rover Thames Ditton
Guy Salmon Jaguar Northampton
Guy Salmon Jaguar Oxford
Guy Salmon Land Rover Bristol
Guy Salmon Land Rover Coventry
Guy Salmon Land Rover Knutsford
Guy Salmon Land Rover Portsmouth
Guy Salmon Land Rover Sheffield
Guy Salmon Land Rover Stockport
Guy Salmon Land Rover Stratford-upon-Avon
Guy Salmon Land Rover Wakefield

Lamborghini

Lamborghini Birmingham
Lamborghini Edinburgh

Lexus

Lexus Birmingham
Lexus Bristol
Lexus Cardiff
Lexus Leicester
Lexus Milton Keynes

Mercedes-Benz/smart

Mercedes-Benz of Bath
Mercedes-Benz of Bedford
Mercedes-Benz of Carlisle
Mercedes-Benz of Cheltenham and Gloucester
Mercedes-Benz of Newbury
Mercedes-Benz of Northampton
Mercedes-Benz of Sunderland
Mercedes-Benz of Swindon
Mercedes-Benz of Weston-Super-Mare
Mercedes-Benz/smart of Bristol

Porsche

Porsche Centre Edinburgh
Porsche Centre Glasgow
Porsche Centre Leicester
Porsche Centre Mid-Sussex
Porsche Centre Silverstone
Porsche Centre Solihull

Rolls-Royce

Rolls-Royce Motor Cars Manchester
Rolls-Royce Motor Cars Sunningdale

Saab

Oxford Saab

Toyota

Toyota World Birmingham
Toyota World Bridgend
Toyota World Bristol North
Toyota World Bristol South
Toyota World Cardiff
Toyota World Newport
Toyota World Solihull
Toyota World Tamworth

Volkswagen

SEAT Huddersfield
VW Harrogate
VW Huddersfield
VW Leeds

Volvo

Tollbar Warwick

GERMANY

Penske Sportwagenzentrum
Tamsen, Bremen (Aston Martin, Bentley, Ferrari, Maserati)
Tamsen, Hamburg (Aston Martin, Ferrari, Lamborghini, Maserati)

PUERTO RICO

Lexus de San Juan
Triangle Chrysler, Dodge, Jeep de Ponce
Triangle Chrysler, Dodge, Jeep, Honda del Oeste
Triangle Honda 65 de Infanteria
Triangle Honda-Suzuki de Ponce
Triangle Mazda de Ponce
Triangle Nissan del Oeste

Ferrari Classic Parts	Mercedes-Benz/smart of Milton Keynes	Triangle Toyota-Scion de San Juan
Graypaul Birmingham	Mercedes-Benz/smart of Newcastle	
Graypaul Edinburgh	Mercedes-Benz/smart of Teesside	

We also own 50% of the following dealerships:

GERMANY

Aix Automobile (Toyota, Lexus)
Audi Zentrum Aachen
Autohaus Augsburg (Goeggingen) (BMW/MINI)
Autohaus Augsburg (Lechhausen) (BMW)
Autohaus Augsburg (Stadtmitte) (MINI)
Autohaus Nix (Eschborn) (Toyota, Lexus)
Autohaus Krings (Volkswagen)
Autohaus Nix (Frankfurt) (Toyota)
Autohaus Nix (Offenbach) (Toyota, Lexus)
Autohaus Nix (Wachtersbach) (Toyota, Lexus)
Autohaus Piper (Volkswagen)
Autohaus Reisacher (Krumbach) (BMW, MINI)
Autohaus Reisacher (Memmingen) (BMW, MINI)
Autohaus Reisacher (Ulm) (BMW, MINI)
Autohaus Reisacher (Lundsburg) (BMW)
J-S Auto Park Stolberg (Volkswagen)
Lexus Forum Frankfort
TCD (Toyota)
Volkswagen Zentrum Aachen
Wolff & Meir (Volkswagen)
Zabka Automobile (Eschweiler) (Audi)
Zabka Automobile (Alsdorf) (Volkswagen)
Jacobs Automobile (Duren) (Volkswagen, Audi)
Jacobs Automobile (Geilenkirchen) (Volkswagen, Audi)

U.S.

Penske Wynn Ferrari Maserati (Nevada)
MAX BMW Motorcycles (New Hampshire)
MAX BMW Motorcycles (New York)

Management Information Systems

We consolidate financial, accounting and operational data received from our U.S. dealers through a private communications network. Dealership data is gathered and processed through individual dealer systems utilizing a common dealer management system licensed from a third party. Each dealership is allowed to tailor the operational capabilities of that system locally, but we require that they follow our standardized accounting procedures. Our U.S. network allows us to extract and aggregate information from the system in a consistent format to generate consolidating financial and operational data. The system also allows us to access detailed information for each dealership individually, as a group, or on a consolidated basis. Information we can access includes, among other things, inventory, cash, unit sales, the mix of new and used vehicle sales and sales of aftermarket products and services. Our ability to access this data allows us to continually analyze these dealerships results of operations and financial position so as to identify areas for improvement. Our technology and processes also enable us to quickly integrate dealerships or dealership groups we acquire in the U.S.

Our U.K. dealership financial, accounting and operational data is processed through a standard dealer management system licensed from a third party, except when otherwise required by the manufacturer. Financial and operational information is aggregated following U.S. policies and accounting requirements, and is reported in our U.S. reporting format to ensure consistency of results among our worldwide operations. Similar to the U.S., the U.K. technology and processes enable us to continually analyze these dealerships results of operations and financial position so as to identify areas for improvement and to quickly integrate dealerships or dealership groups we acquire in the U.K.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our retail vehicle business, as well as repeat sales and service business. We utilize many different media for our marketing activities, including newspapers, direct mail, magazines, television, radio and increasingly the Internet and other digital media.

We also assist our local management in running special marketing events to generate sales. Automobile manufacturers supplement our local and regional advertising efforts through large advertising campaigns promoting their brands and promoting attractive financing packages and other incentive programs they may offer. We believe that in some instances our scale has enabled us to obtain favorable terms from suppliers and advertising media, and should enable us to realize continued cost savings in marketing. In an effort to realize increased efficiencies, we are focusing on common marketing metrics and business practices across our dealerships, as well as negotiating enterprise arrangements for targeted marketing resources.

In an effort to stimulate interest in the smart fortwo vehicle and vehicle sales, smart USA promotes and advertises the smart fortwo through press releases, advertising, and principally through local campaigns and events such as sponsored ride and drive events. Increasingly, smart USA has used the Internet and other digital media to showcase and generate interest in the smart fortwo. In 2009, smart USA sponsored the smart USA Advance Program which gave dealers the ability to benefit from early adoption of the cash for clunkers governmental incentive, and has recently promoted several leasing incentives to facilitate customer acquisition of the smart fortwo.

Agreements with Vehicle Manufacturers

Each of our dealerships operates under separate franchise agreements with the manufacturers of each brand of vehicle sold at that dealership. These agreements may contain provisions and standards governing almost every aspect of the dealership, including ownership, management, personnel, training, maintenance of a minimum of working capital, net worth requirements, maintenance of minimum lines of credit, advertising and marketing activities, facilities, signs, products and services, maintenance of minimum amounts of insurance, achievement of minimum customer service standards and monthly financial reporting. Typically, the dealership principal and/or the owner of a dealership may not be changed without the manufacturer s consent. In exchange for complying with these provisions and standards, we are granted the non-exclusive right to sell the manufacturer s brand of vehicles and related parts and warranty services at our dealerships. The agreements also grant us a non-exclusive license to use each manufacturer s trademarks, service marks and designs in connection with our sales and service of its brands at our dealerships.

Some of our franchise agreements expire after a specified period of time, ranging from one to six years. Manufacturers have generally not terminated our franchise agreements, and our franchise agreements with fixed terms have typically been renewed without substantial cost. We currently expect the manufacturers to renew all of our franchise agreements as they expire. In addition, certain agreements may also limit the total number of dealerships of that brand that we may own in a particular geographic area and, in some cases, limit the total number of their vehicles that we may sell as a percentage of a particular manufacturer s overall sales. Manufacturers may also limit the ownership of stores in contiguous markets. To date, we have reached the limit of the number of Lexus dealerships we may own in the U.S., and we have reached certain geographical limitations with certain manufacturers in the U.S., such that without negotiated modifications to the agreements we cannot acquire additional franchises of those brands in certain U.S. markets. Geographical limitations have historically had little impact on our ability to execute on our acquisition strategy.

Many of these agreements also grant the manufacturer a security interest in the vehicles and/or parts sold by the manufacturer to the dealership, as well as other dealership assets, and permit the manufacturer to terminate or not renew the agreement for a variety of causes, including failure to adequately operate the dealership, insolvency or bankruptcy, impairment of the dealer s reputation or financial standing, changes in the dealership s management, owners or location without consent, sales of the dealership s assets without consent, failure to maintain adequate working capital or floor plan financing, changes in the dealership s financial or other condition, failure to submit required information to the manufacturer on a timely basis, failure to have any permit or license necessary to operate the dealership, and material breaches of other provisions of the agreement. In the U.S., these termination rights are subject to applicable state franchise laws that limit a manufacturer s right to terminate a franchise. In the U.K., we operate without such local franchise law protection (see Regulation below).

Our agreements with manufacturers usually give the manufacturers the right, in some circumstances (including upon a merger, sale, or change of control of the company, or in some cases a material change in our business or capital structure), to acquire from us, at fair market value, the dealerships that sell the manufacturers brands. For example, our agreement with General Motors provides that, upon a proposed sale of 20% or more of our voting stock to any other person or entity (other than for passive investment) or another manufacturer, an extraordinary corporate transaction (such as a merger, reorganization or sale of a material amount of assets) or a change of control of our board of directors, General Motors has the right to acquire all assets, properties and business of any General Motors dealership owned by us for fair value. In addition, General Motors has a right of first refusal if we propose to sell any of our General Motors dealerships to a third party. Some of our agreements with other major manufacturers contain provisions similar to the General Motors provisions. Some of the agreements also prohibit us from pledging, or impose significant limitations on our ability to pledge, the capital stock of some of our subsidiaries to lenders.

We are also party to a distributor agreement with smart GmbH, pursuant to which we are the exclusive distributor of the smart fortwo in the U.S. and Puerto Rico. The agreement governs all aspects of our distribution rights, including sales and service activities, service and warranty terms, use of intellectual property, promotion and advertising provisions, pricing and payment terms, and indemnification requirements. The agreement expires on December 31, 2021, subject to early termination by either party subject to various conditions set forth in the agreement, including the right by smart GmbH to cancel the agreement in the event it elects to discontinue production or distribution of the fortwo or a successor model in the U.S. market, or in the event the Chairman (Mr. Penske) or President of smart USA is not participating in the smart distribution business (for any reason) and a replacement satisfactory to smart GmbH is not appointed within a reasonable period of time. The parties have agreed to the apportionment of various potential payments in connection with the termination of the smart distributorship (including obligations to smart dealers to repurchase vehicles and related expenses as outlined by our dealer agreement and state franchise laws see Regulation) in the U.S. as outlined in the agreement.

Competition

For new vehicle sales, we compete primarily with other franchised dealers in each of our marketing areas. We do not have any cost advantage in purchasing new vehicles from manufacturers, and typically we rely on our premium facilities, advertising and merchandising, management experience, sales expertise, service reputation and the location of our dealerships to compete for the sale of new vehicles. Each of our markets may include a number of well-capitalized competitors that also have extensive automobile dealership managerial experience and strong retail locations and facilities. In addition, we compete against dealerships owned by automotive manufacturers in some retail markets.

We compete with dealers that sell the same brands of new vehicles that we sell and with dealers that sell other brands of new vehicles that we do not represent in a particular market. Our new vehicle dealership competitors have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms as we do. Automotive dealers also face competition in the sale of new vehicles from on-line purchasing services and warehouse clubs. Due to lower overhead and sales costs, these companies may be willing to offer products at lower prices than franchised dealers.

For used vehicle sales, we compete with other franchised dealers, independent used vehicle dealers, automobile rental agencies, on-line purchasing services, private parties and used vehicle superstores for the procurement and resale of used vehicles.

We believe that the principal competitive factors in vehicle sales are the marketing campaigns conducted by manufacturers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of dealerships and the quality of customer experience. Other competitive factors include customer preference for particular brands of automobiles, pricing (including manufacturer rebates and other special offers) and warranties. We believe that our dealerships are competitive in all of these areas.

With respect to arranging or providing financing for our customers vehicle purchases, we compete with a broad range of financial institutions.

We compete with other franchised dealers to perform warranty repairs and with other automotive dealers, franchised and non-franchised service center chains, and independent garages for non-warranty repair and routine maintenance business. We compete with other automotive dealers, service stores and auto parts retailers in our parts operations. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, facility location, the familiarity with a manufacturer s brands and models and the quality of customer service. A number of regional or national chains offer selected parts and services at prices that may be lower than our prices.

The automotive retail industry is currently served by franchised automotive dealerships, independent used vehicle dealerships and individual consumers who sell used vehicles in private transactions. Several other companies have established national or regional automotive retail chains. Additionally, vehicle manufacturers have historically engaged in the retail sale and service of vehicles, either independently or in conjunction with their franchised dealerships, and may do so on an expanded basis in the future, subject to various state laws that restrict or prohibit manufacturer ownership of dealerships.

We believe that a growing number of consumers are utilizing the Internet and other digital media, to differing degrees, in connection with the purchase of vehicles. Accordingly, we may face increased pressure from on-line automotive websites, including those developed by automobile manufacturers and other dealership groups. Consumers use the Internet and other digital media to compare prices for vehicles and related services, which may result in reduced margins for new vehicles, used vehicles and related services.

With respect to distribution of the smart fortwo, smart USA competes with all other manufacturers and distributors of vehicles sold in the U.S., and in particular those in the small compact and sub-compact segment. While this segment has historically represented a small portion of the total U.S. market, we expect increasing sales in the small vehicle segment in light of volatile gas prices and increasingly competitive offerings by other manufacturers in this segment (which may also affect smart fortwo s current market share of this segment).

Employees and Labor Relations

As of December 31, 2009, we employed approximately 13,950 people, approximately 500 of whom were covered by collective bargaining agreements with labor unions. We consider our relations with our employees to be satisfactory. Our policy is to motivate our key managers through, among other things, variable compensation programs tied principally to dealership profitability. Due to our reliance on vehicle manufacturers, we may be adversely affected by labor strikes or work stoppages at the manufacturers facilities.

Regulation

We operate in a highly regulated industry and a number of regulations affect our business of marketing, selling, financing and servicing automobiles. Under the laws of the jurisdictions in which we currently operate or into which we may expand, we typically must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include franchise laws and regulations, environmental laws and regulations (see Environmental Matters below), laws and regulations applicable to new and used motor vehicle dealers, as well as privacy, identity theft prevention, wage-hour, anti-discrimination and other employment practices laws.

Our operations may also be subject to consumer protection laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within a period of time after initial purchase if the vehicle does not conform to the manufacturer s express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Various laws also require various written disclosures to be provided on new vehicles, including mileage and pricing information.

Our financing activities with customers are subject to truth-in-lending, consumer leasing, equal credit opportunity and similar regulations, as well as, motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some jurisdictions regulate finance fees that may be paid as a result of vehicle sales. In recent years, private plaintiffs and state attorneys general in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles.

In the U.S., we benefit from the protection of numerous state dealer laws that generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state dealer laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer s criteria within the notice period to avoid the termination or non-renewal. With respect to our smart distributorship, these franchise laws generally require that in the event of termination of a smart franchise, we are required to repurchase certain unsold inventories and provide other forms of termination assistance to the smart dealers.

Europe generally does not have these laws and, as a result, our European dealerships operate without these protections. In Europe, rules limit automotive manufacturers block exemption to certain anti-competitive rules in regards to establishing and maintaining a retail network. As a result, existing manufacturer authorized retailers are able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the European Union, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on transfers of dealerships between existing franchisees within the European Union.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of aboveground and underground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, our business involves the generation, use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, filters, transmission fluid, antifreeze, refrigerant, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the management of hazardous and other environmentally sensitive materials are subject to numerous requirements. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under applicable law. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. In addition, water quality protection programs govern certain discharges from some of our operations. Similarly, certain air emissions from our operations, such as auto body painting, may be subject to relevant laws. Various health and safety standards also apply to our operations.

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We may have liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable statutes. These statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Responsible parties under these statutes may include the owner or operator of the site where the contamination occurred and companies that disposed or arranged for the disposal of the hazardous substances released at these sites.

An expanding trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. Vehicle manufacturers are subject to federally mandated corporate average fuel economy standards, which will increase substantially as a result of legislation passed in 2007. Furthermore, in response to recent studies suggesting that emissions of carbon dioxide and certain other gases, referred to as greenhouse gases, may be contributing to warming of the Earth s atmosphere, climate change-related legislation and policy changes to restrict greenhouse gas emissions are being considered at state and federal levels. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide that may be imposed on vehicles and automobile fuels in the U.S. could adversely affect demand for the vehicles that we sell.

We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition or cash flows. However, soil and groundwater contamination is known to exist at certain of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. Compliance with current, amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and such expenditures could be material.

In an effort to improve our operating costs and be responsible in the area of environmentally sustainable practice, we are pursuing many measures with respect to the design and construction of our dealerships. As a result of our efforts, our smart USA dealerships located in Connecticut and Michigan have obtained Leadership in Energy and Environmental Design (LEED) certifications. The United States Green Building Council (USGBC), an internationally recognized nonprofit organization, awards the prestigious LEED certification to buildings that have achieved an outstanding rating in energy efficiency and resource conservation in five categories, consisting of sustainable sites, water efficiency, energy and the atmosphere, material resources, and indoor environmental quality.

Insurance

The automotive retail industry is subject to substantial risk of loss due to the significant concentration of property values at dealership locations, including vehicles and parts. In addition, we are exposed to other potential liabilities arising out of our operations, including claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements. As a result, we require significant levels of insurance covering a broad variety of risks.

We purchase insurance, including umbrella and excess insurance policies, subject to specified deductibles and significant loss retentions. The level of risk we retain may change in the future as insurance market conditions or other factors affecting the economics of purchasing insurance change. We are exposed to uninsured and underinsured losses that could have a material adverse effect on our results of operations, financial condition or cash flows. In certain instances, we post letters of credit to support our loss retentions and deductibles.

We, Penske Corporation, which is our largest stockholder, and certain affiliates have entered into a joint insurance agreement which provides that, with respect to any joint insurance (currently only our joint crime insurance policy), available coverage with respect to a loss shall be paid to each party per occurrence as stipulated in the policies. In the event of losses by us and Penske Corporation that exceed the limit of liability for any policy or policy period, the total policy proceeds will be allocated based on the ratio of premiums paid. For information regarding our relationship with Penske Corporation, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations-Related Party Transactions.

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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.

Available Information

For selected financial information concerning our various operating and geographic segments, see Note 17 to our consolidated financial statements included in Item 8 of this report. Our Internet website address is www.penskeautomotive.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, are available free of charge through our website under the tab Investor Relations as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. We also make available on our website copies of materials regarding our corporate governance policies and practices, including our Corporate Governance Guidelines; our Code of Business Ethics; and the charters relating to the committees of our Board of Directors. You may also obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations, Penske Automotive Group, Inc., 2555 Telegraph Road, Bloomfield Hills, MI 48302 or by calling toll-free 1-866-715-528. The information on or linked to our website is not part of this document. We plan to disclose waivers, if any, for our executive officers or directors from our code of business ethics on our website. We are incorporated in the state of Delaware and began dealership operations in October 1992.

Item 1A. *Risk Factors*

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock, may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Annual Report on Form 10-K, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as anticipates, believes, estimates, expects, intends, may, plans, seeks, projects, will, would, an intended to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise. Although we believe that the expectations, plans, intentions, and projections reflected in our forward-looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

RISK RELATING TO OUR BUSINESS

Our business is susceptible to adverse economic conditions, including changes in customer demand, changes in consumer confidence, changes in fuel prices and reduced credit availability.

We believe that the automotive retail industry is influenced by general economic conditions, consumer confidence, personal discretionary spending, interest rates, fuel prices, credit availability and unemployment rates. The worldwide automotive industry experienced significant operational and financial difficulties in 2008 and 2009. The turbulence in worldwide credit markets and resulting decrease in the availability of financing and leasing alternatives for consumers hampered our sales efforts. Continued or further restricted credit availability could materially adversely affect our operations as many of our retail sales customers purchase vehicles using credit. In 2008, volatility in fuel prices impacted consumer preferences and caused dramatic swings in consumer demand for various vehicle models, which led to supply and demand imbalances. Since September 2008, 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. We believe continued adverse economic conditions will negatively affect our business.

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Historically, unit sales of motor vehicles, particularly new vehicles, have been cyclical, fluctuating with general economic cycles. During periods of economic downturn, such as the latter half of 2008 and 2009, new vehicle retail sales tend to experience periods of decline characterized by oversupply and weak demand. The automotive retail industry may experience sustained periods of decline in vehicle sales in the future, which could materially adversely affect our results of operations, financial condition or cash flows.

RISKS RELATING TO AUTOMOTIVE MANUFACTURERS

Automotive manufacturers exercise significant control over our operations and we depend on them in order to operate our business.

Each of our dealerships operates under franchise agreements with automotive manufacturers or related distributors. We are dependent on these parties because, without a franchise agreement, we cannot operate a new vehicle franchise or perform manufacturer authorized warranty service. Manufacturers exercise a great degree of control over the operations of our dealerships. For example, manufacturers can require our dealerships to meet specified standards of appearance, require individual dealerships to meet specified financial criteria such as the maintenance of a minimum of net working capital and a minimum net worth, impose minimum customer service and satisfaction standards, restrict the use of manufacturers names and trademarks and consent to the replacement of the dealership principal.

Our franchise agreements may be terminated or not renewed by automotive manufacturers for a variety of reasons, including unapproved changes of ownership or management and other material breaches of the franchise agreements. We have, from time to time, not been compliant with various provisions of some of our franchise agreements. Our operations in the U.K. operate without local franchise law protection, and we are aware of efforts by certain manufacturers not to renew their franchise agreements with certain other retailers in the U.K. Although we believe that we will be able to renew all of our existing franchise agreements at expiration, if any of our significant existing franchise agreements or a large number of franchise agreements are not renewed or the terms of any such renewal are materially unfavorable to us, our results of operations, financial condition or cash flows could be materially adversely affected. In addition, actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements could also materially adversely affect our results of operations, financial condition or cash flows.

While U.S. franchise laws give us limited protection in selling a manufacturer s product within a given geographic area, our franchise agreements do not give us the exclusive right to sell vehicles within a given area. In Europe, rules limit automotive manufacturers block exemption to certain anti-competitive rules in regards to establishing and maintaining a retail network. As a result, authorized retailers are able, subject to manufacturer facility requirements, to relocate or add additional facilities throughout the European Union, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on transfers of dealerships between existing franchisees within the European Union. Changes to these rules adverse to us could materially adversely affect our results of operations, financial condition or cash flows.

We depend on manufacturers to provide us with a desirable mix of popular new vehicles, which tend to produce the highest profit margins. Manufacturers generally allocate their vehicles among dealerships based on the sales history of each dealership. Our inability to obtain sufficient quantities of the most popular models, whether due to sales declines at our dealerships or otherwise, could materially adversely affect our results of operations, financial condition or cash flows.

Our volumes and profitability may be adversely affected if automotive manufacturers reduce or discontinue their incentive programs.

Our dealerships depend on the manufacturers for sales incentives, warranties and other programs that promote and support vehicle sales at our dealerships. Some of these programs include customer rebates, dealer incentives, special financing or leasing terms and warranties. Manufacturers frequently change their incentive programs. If manufacturers reduce or discontinue incentive programs, our results of operations, financial condition or cash flows could be materially adversely affected.

Adverse conditions affecting one or more automotive manufacturers may negatively impact our revenues and profitability.

Our success depends on the overall success of the line of vehicles that each of our dealerships sells. As a result, our success depends to a great extent on the automotive manufacturers financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and labor relations. In 2009, BMW/MINI, Toyota/Lexus brands, Honda/Acura, Daimler and Audi brands accounted for 21%, 19%, 14%, 10% and 10%, respectively, of our total revenues. A significant decline in the sale of new vehicles manufactured by these manufacturers, or the loss or deterioration of our relationships with one or more of these manufacturers, could materially adversely affect our results of operations, financial condition or cash flows. No other manufacturer accounted for more than 10% of our total revenues for 2009.

Events such as labor strikes that may adversely affect a manufacturer may also materially adversely affect us, especially if these events were to interrupt the supply of vehicles or parts to us. Similarly, the delivery of vehicles from manufacturers at a time later than scheduled, which may occur during periods of new product introductions, could lead to reduced sales during those periods. In addition, any event that causes adverse publicity involving one or more automotive manufacturers or their vehicles may materially adversely affect our results of operations, financial condition or cash flows. For example, in January 2010, Toyota temporarily suspended the production of eight of its vehicle models, and expanded its previous recall for certain existing vehicles, due to reports of unintended vehicle acceleration, and subsequently issued a recall of its Prius model due to brake issues. While we expect that these actions will adversely impact our Toyota new and used unit sales for some period, the long-term impact of lower revenue due to any diminution to Toyota s reputation, or consumers confidence in or preference for Toyota s vehicles, taken together with any potential increase in revenue from repair activities related to the Toyota recall, is difficult to predict.

Further restructuring of one of the U.S. based automotive manufacturers or a significant supplier may adversely affect our operations, as well as the U.S. automotive sector as a whole.

U.S. based automotive manufacturers have been experiencing decreasing U.S. market share in recent years. Beginning in 2008, these manufacturers also experienced significant 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 of these manufacturers filed for bankruptcy protection. While we have limited exposure to these manufacturers in terms of the percentage of our overall revenue, further restructuring efforts by any one of them or restructuring efforts at any of the other manufacturers we represent would likely lead to significant disruption to our dealerships that represent them, including, but not limited to, a loss of availability of new vehicle inventory, reduced consumer demand for vehicle inventory, the loss of funding for existing or future inventory, non-payment of receivables due from that manufacturer, and/or the cancellation of our franchise agreement without cancellation of our underlying lease and other obligations. Such restructuring of one of these manufacturers could also impact other automotive manufacturers and suppliers. We cannot reasonably predict the impact to the automotive retail environment of any such disruption, but believe it would be significant and adverse to the industry as a whole. Any restructuring of a significant automotive supplier, due to limited liquidity or credit availability or otherwise may have similar consequences.

Our failure to meet manufacturers consumer satisfaction requirements may adversely affect us.

Many manufacturers track customers satisfaction with their sales and warranty service experiences through measures that are generally known as customer satisfaction indices, or CSI. Manufacturers sometimes use a dealership s CSI scores as a factor in evaluating applications for additional dealership acquisitions. Certain of our dealerships have not met their manufacturers CSI standards, and we may be unable to meet these standards in the future. A manufacturer may refuse to consent to a franchise acquisition by us if our dealerships do not meet their CSI standards. This could materially adversely affect our acquisition strategy. In addition, because we receive incentive payments from the manufacturers based in part on CSI scores, future payments could be materially reduced or eliminated if our CSI scores decline.

Automotive manufacturers impose limits on our ability to issue additional equity and on the ownership of our common stock by third parties, which may hamper our ability to meet our financing needs.

A number of manufacturers impose restrictions on the sale and transfer of our common stock. The most prohibitive restrictions provide that, under specified circumstances, we may be forced to sell or surrender franchises if a competing automotive manufacturer acquires a 5% or greater ownership interest in us or if an individual or entity that has a criminal record in connection with business dealings with any automotive manufacturer, distributor or dealer or who has been convicted of a felony acquires a 5% or greater ownership interest in us. Further, certain manufacturers have the right to approve the acquisition by a third party of 20% or more of our common stock, and a number of manufacturers continue to prohibit changes in ownership that may affect control of our company.

Actions by our stockholders or prospective stockholders that would violate any of the above restrictions are generally outside our control. If we are unable to obtain a waiver or relief from these restrictions, we may be forced to terminate or sell one or more franchises, which could materially adversely affect our results of operations, financial condition or cash flows. These restrictions also may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. These restrictions also may impede our ability to raise required capital or our ability to acquire dealership groups using our common stock.

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RISKS RELATING TO OUR ACQUISITION STRATEGY

Growth in our revenues and earnings depends on our ability to acquire and successfully operate new dealerships.

We expect to acquire new dealerships, however, we cannot guarantee that we will be able to identify and acquire additional dealerships in the future. Moreover, acquisitions involve a number of risks, including:

- integrating the operations and personnel of the acquired dealerships;
- operating in new markets with which we may not be familiar;
- incurring unforeseen liabilities at acquired dealerships;
- disruption to our existing business;
- failure to retain key personnel of the acquired dealerships; and
- impairment of relationships with employees, manufacturers and customers.

In addition, integrating acquired dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management resources or other operational or financial problems. Unforeseen expenses, difficulties and delays that may be encountered in connection with the integration of acquired entities and the rapid expansion of operations could inhibit our growth, result in our failure to achieve acquisition synergies or require us to focus resources on integration rather than other more profitable areas. Acquired entities may subject us to unforeseen liabilities that we did not detect prior to completing the acquisition, or liabilities that turn out to be greater than those we had expected. These liabilities may include liabilities that arise from non-compliance with environmental laws by prior owners for which we, as a successor owner, may be responsible.

We may also be unable to identify attractive acquisition candidates, or unable to complete acquisitions on acceptable terms on a timely basis. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including the availability of suitable acquisition candidates, the negotiation of acceptable terms, our financial capabilities, the availability of skilled employees to manage the acquired companies and general economic and business conditions. Further, we may need to borrow funds to complete future acquisitions, which funds may not be available. Furthermore, we have sold and may in the future sell dealerships based on numerous factors, which may impact our future revenues and earnings, particularly if we do not make acquisitions to replace such revenues and earnings.

Manufacturers restrictions on acquisitions may limit our future growth.

Our future growth via acquisition of automotive dealerships will depend on our ability to obtain the requisite manufacturer approvals. The relevant manufacturer must consent to any franchise acquisition and it may not consent in a timely fashion or at all. In addition, under many franchise agreements or under local law, a manufacturer may have a right of first refusal to acquire a dealership that we seek to acquire.

Some manufacturers limit the total number of their dealerships that we may own in a particular geographic area and, in some cases, limit the total number of their vehicles that we may sell as a percentage of that manufacturer s overall sales. Manufacturers may also limit the ownership of stores in contiguous markets. To date, we have reached the limit of the number of Lexus dealerships we may own in the U.S., and we have reached certain geographical limitations with certain manufacturers in the U.S., such that without negotiated modifications to our agreements with those manufacturers we would not be able to acquire additional franchises of those brands in certain markets. If additional manufacturers impose or expand these types of restrictions, our acquisition strategy, results of operations, financial condition or cash flows could be materially adversely affected.

OTHER BUSINESS RISKS

Substantial competition in automotive sales and services may adversely affect our profitability.

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with:

- franchised automotive dealerships in our markets that sell the same or similar new and used vehicles that we offer;
- private market buyers and sellers of used vehicles;
- Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- vehicle rental companies that sell their used rental vehicles;
- service center chain stores; and
- independent service and repair shops.

We also compete against automotive manufacturers in some retail markets, which may negatively affect our operating results, financial condition or cash flows. Some of our competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs than us. We do not have any cost advantage over other franchised automotive dealerships when purchasing new vehicles from the automotive manufacturers.

In addition to competition for vehicle sales, our dealerships compete with franchised dealerships to perform warranty repairs and with other automotive dealers, independent service center chains, independent garages and others in connection with our non-warranty repair, routine maintenance and parts business. A number of regional or national chains offer selected parts and services at prices that may be lower than our dealerships prices. We also compete with a broad range of financial institutions in arranging financing for our customers vehicle purchases.

In addition, customers are using the Internet and other digital media to compare pricing for cars and related finance and insurance services, which may reduce our profit margins on those lines of business. Some websites offer vehicles for sale over the Internet without being a franchised dealer, although they must currently source their vehicles from a franchised dealer. If new vehicle sales made over the Internet are allowed to be conducted without the involvement of franchised dealers, or if dealerships are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected. We could also be materially adversely affected to the extent that Internet companies acquire dealerships or ally themselves with our competitors dealerships.

The success of our distribution of the smart fortwo is directly impacted by availability and consumer demand for this vehicle.

We are the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico. The profitability of this business depends upon the number of vehicles we distribute, which in turn is impacted by consumer demand for this vehicle. We distributed 27,052 smart fortwo vehicles in 2008 and 13,772 vehicles in 2009. We believe demand for the smart fortwo is subject to the same general economic conditions, consumer confidence, personal discretionary spending, interest rates and credit availability that impact the retail automotive industry generally. Because the smart fortwo is a vehicle with high fuel economy, future demand may be more responsive to changes in fuel prices than other vehicles. In the event sales of the smart fortwo are less than we expect, our related results of operations and cash flows may be materially adversely affected.

We are subject to purchase commitments pursuant to the smart distribution agreement, which requires us to purchase a number of vehicles to be negotiated on an ongoing basis. In addition, we are potentially subject to a purchase commitment with respect to unsold inventories and other items pursuant to the smart franchise agreement and state franchise laws in the event of franchise terminations. To the extent we are required to purchase vehicles that we are unable to distribute to franchised dealers, or repurchase vehicles from dealerships that we are unable to distribute to other franchised dealers, our results of operations, financial condition or cash flows may be adversely affected.

The smart fortwo is manufactured by Mercedes-Benz Cars at its Hambach, France factory. In the event of a supply disruption or if sufficient quantities of the smart fortwo are not made available to us, or if we accept vehicles and are unable to economically distribute those vehicles to the smart dealership network, our cash flows or results of operations may be materially adversely affected.

Our capital costs and our results of operations may be adversely affected by a rising interest rate environment.

We finance our purchases of new and, to a lesser extent, used vehicle inventory using floor plan financing arrangements under which we are charged interest at floating rates. In addition, we obtain capital for general corporate purposes, dealership acquisitions and real estate purchases and improvements under predominantly floating interest rate credit facilities. Therefore, excluding the potential mitigating effects from interest rate hedging techniques, our interest expenses will rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, including new and used vehicles sales, because many of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues, which could materially adversely affect our results of operations, financial condition or cash flows.

Our interest costs may also rise independent of general interest rates. For example, the dislocation of 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. Certain of those companies have responded by increasing the cost of such financing to us. Materially increased interest costs could materially adversely affect our results of operations, financial condition or cash flows.

Our substantial indebtedness and lease commitments 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, debt repayment and lease payments.

We have a substantial amount of indebtedness. As of December 31, 2009, we had approximately $1.2 billion of floor plan notes payable outstanding and $946.4 million of total non-floor plan debt outstanding, including $289.3 million of senior subordinated convertible notes, net of debt discount, currently expected to be redeemed in April 2011 or otherwise refinanced on or prior thereto. As of December 31, 2009, $149.0 million of term loans, $1.3 million of letters of credit and no revolving borrowings were outstanding under our U.S. credit agreement and outstanding loans under our U.K. credit agreement amounted to £55.0 million ($89.0 million), including £10.6 million ($17.1 million) under the term loan. As of December 31, 2009, we had the ability to draw on up to $355.9 million of unutilized debt capacity under our credit facilities.

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 dealerships properties and other facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at our election. Our total rent obligations under those leases, including extension periods we may exercise at our discretion and assuming constant consumer price indices, is currently estimated to be approximately $4.8 billion.

Our substantial debt and operating lease commitments could have important consequences. For example, they could:

- make it more difficult for us to obtain additional financing in the future for our acquisitions and operations, working capital requirements, capital expenditures, debt service or other general corporate requirements;
- require us to dedicate a substantial portion of our cash flows from operations to repay debt and related interest rather than other areas of our business;
- limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt, creating liens on our properties, making acquisitions or paying dividends;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- make us more vulnerable in the event of adverse economic or industry conditions or a downturn in our business.

Our ability to meet our lease and debt service and repayment obligations depends on our future performance, which will be impacted by general economic conditions and by financial, business and other competitive factors, many of which are beyond our control. These factors could include operating difficulties, increased operating costs, the actions of competitors, regulatory developments and delays in implementing our growth strategies. Our ability to meet our debt and lease obligations may depend on our success in implementing our business strategies, and we may not be able to implement our business strategies or the anticipated results of our strategies may not be realized.

If our business does not generate sufficient cash flow from operations or future sufficient borrowings are not available to us, we may not be able to service or repay our debt or leases or to fund our other liquidity needs. In that event, we may have to delay or cancel acquisitions, sell equity securities, sell assets or restructure or refinance our debt. If we are unable to service or repay our debt or leases, we may not be able to pursue these options on a timely basis or on satisfactory terms or at all. In addition, the terms of our existing or future franchise agreements, agreements with manufacturers or debt agreements may prohibit us from adopting any of these alternatives.

If we are unable to refinance or repay our 3.5% senior subordinated convertible notes in April 2011, our overall liquidity position may be materially adversely affected.

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 $262.2 million is currently outstanding ($306.3 million on December 31, 2009). Holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on April 1, 2011, 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. We currently expect to redeem the Convertible Notes in April 2011 or otherwise refinance the notes on or prior thereto. If our business does not generate sufficient cash flow from operations or future sufficient borrowings are not available to us, we may not be able to refinance or repay the Convertible Notes. In that event, we may have to delay or cancel acquisitions, sell equity securities, sell assets or restructure or refinance the Convertible Notes and our other indebtedness. If these efforts are not successful, our results of operations, financial condition and cash flows may be materially adversely impacted, including by resulting in cross-defaults of substantially all of our other indebtedness.

Our inability to raise capital for the purchase of vehicle inventory or otherwise could adversely affect us.

We depend to a significant extent on our ability to finance the purchase of inventory in the form of floor plan financing. Floor plan financing is financing from a vehicle manufacturer or third party secured by the vehicles we sell. Our dealerships borrow money to buy a particular vehicle from the manufacturer and generally pay off the floor plan financing when they sell the particular vehicle, paying interest during the interim period. Our floor plan financing is secured by substantially all of the assets of our automotive dealership subsidiaries. Our remaining assets are pledged to secure our credit facilities. This may impede our ability to borrow from other sources.

Most of our floor plan lenders are associated with manufacturers with whom we have franchise agreements. Consequently, the deterioration of our relationship with a manufacturer could adversely affect our relationship with the affiliated floor plan lender and vice versa. Any inability to obtain floor plan financing on customary terms, or the termination of our floor plan financing arrangements by our floor plan lenders, could materially adversely affect our results of operations, financial condition or cash flows.

We require substantial capital in order to acquire and renovate automotive dealerships. This capital has historically been raised through public or private financing, including through the issuance of debt or equity securities, sale-leaseback transactions and other sources. Availability under our credit agreements may be limited by the covenants and conditions of those facilities and we may not be able to raise additional funds. If we raise additional funds by issuing equity securities, dilution to then existing stockholders may result. If adequate funds are not available, we may be required to significantly curtail our acquisition and renovation programs, which could materially and adversely affect our growth strategy.

Our failure to comply with our debt and operating lease covenants could have a material adverse effect on our business, financial condition or results of operations.

Our U.S. credit agreement, U.K. credit agreement, and certain operating leases contain financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement. If a default were to occur, we would likely seek a waiver of that default, attempt to reset the covenant, or refinance the instrument and accompanying obligations. If we were unable to obtain this relief, the default could result in the acceleration of that debt or lease obligation. In addition, these agreements, as well as the indentures that govern our 7.75% notes and our 3.5% convertible notes, contain cross-default provisions such that a default under one agreement could result in a default under all of our significant financing and operating agreements. If a default and/or cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

We depend on the performance of sublessees to offset costs related to certain of our lease agreements and if the sublessees do not perform as expected, we could experience a material adverse effect on our business, financial condition or results of operations.

Since 1999, we have sold a number of dealerships to third parties. As a condition to the sale, we have at times remained liable for the lease payments relating to the properties on which those franchises operate. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties.

The aggregate rent paid by the tenants on those properties in 2009 was approximately $11.7 million and, in aggregate, we guarantee or are otherwise liable for approximately $202.5 million of lease payments, including lease payments during available renewal periods. We rely on the subtenants to pay the rent and maintain the properties covered by these leases. In the event a subtenant does not perform as expected (due to their financial condition or other factors such as the market performance of the underlying vehicle manufacturer), we may not be able to recover amounts owed to us. In either event, we could be required to fulfill these obligations, which could materially adversely affect our results of operations, financial condition and cash flows.

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

The potential for sales of substantial amounts of our common stock in the public market may have a material adverse effect on our stock price. The majority of our outstanding shares are held by two shareholders, each of whom has registration rights that could result in a substantial number of shares being sold in the market. In addition to outstanding shares eligible for sale, 290,668 shares of our common stock are issuable under currently outstanding stock options granted to employees of the Company. An additional 2,088,646 shares of common stock are reserved for issuance to employees under equity incentive plans. In addition, we have reserved 15,826,124 shares for issuance under our 3.5% senior subordinated convertible notes due 2026, which, if issued, would result in substantial dilution to common shareholders and could adversely effect our stock price. Finally, we have a significant amount of authorized but unissued shares that, if issued, could materially adversely effect our stock price. We cannot determine the impact on the market price of our common stock of these shares which are eligible for sale in the market.

Property loss, business interruptions or other liabilities at some of our dealerships could impact our results of operations.

The automotive retail business is subject to substantial risk of loss due to the significant concentration of property values at dealership locations, including vehicles and parts. We have historically experienced business interruptions at several of our dealerships due to adverse weather conditions or other extraordinary events, such as wild fires in California or hurricanes in Florida. Other potential liabilities arising out of our operations involve claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements. To the extent we experience future similar events, our results of operations, financial condition or cash flows may be materially adversely impacted.

We rely on the management information systems at our dealerships, which are licensed from third parties and are used in all aspects of our sales and service efforts, as well as in the preparation of our consolidating financial and operating data. These systems are principally provided by one supplier in the U.S. and one supplier in the U.K. To the extent these systems become unavailable to us for any reason, or if our relationship deteriorates with either of our two principal suppliers, our business could be significantly disrupted which could materially adversely affect our results of operations, financial condition and cash flow.

If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected.

We believe that our success depends to a significant extent upon the efforts and abilities of our executive management and key employees, including, in particular, Roger S. Penske, our Chairman and Chief Executive Officer. In addition, certain of our agreements provide the counterparty with certain rights in the event Mr. Penske no longer participates in our business. For example, the general distribution agreement pursuant to which we distribute the smart fortwo provides smart GmbH the right to terminate in the event Mr. Penske is not participating in the smart distribution business (for any reason) and a replacement satisfactory to smart GmbH is not appointed within a reasonable period of time. Additionally, our business is dependent upon our ability to continue to attract and retain qualified personnel, including retaining dealership management in connection with acquisitions.

We generally have not entered into employment agreements with our key personnel. The loss of the services of one or more members of our senior management team, including, in particular, Roger S. Penske, could have a material adverse effect on us. We do not have key man insurance for any of our executive officers or key personnel. The loss of any of our key employees or the failure to attract qualified managers could have a material adverse effect on our business.

We are subject to substantial regulation, claims and legal proceedings, any of which could adversely affect our profitability.

A number of regulations affect marketing, selling, financing, distributing and servicing automobiles. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Our foreign operations are subject to similar regulations in their respective jurisdictions.

Our financing activities with customers are subject to truth-in-lending, consumer leasing, equal credit opportunity and similar regulations as well as motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some jurisdictions regulate finance fees that may be paid as a result of vehicle sales and have increased scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. In the event of regulation restricting our ability to generate revenue from arranging financing for our customers, we could be adversely affected. We could also be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations.

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We are involved in legal proceedings in the ordinary course of business including litigation with customers regarding our products and services, and expect to continue to be subject to claims related to our existing business and any new business. A significant judgment against us or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects.

If state franchise laws in the U.S. are repealed or weakened, our dealership franchise agreements will be more susceptible to termination, non-renewal or renegotiation.

State dealer laws in the U.S. generally provide that an automotive manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state franchise laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer s criteria within the notice period to avoid the termination or non-renewal. If franchise laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without advance notice, an opportunity to cure, or a showing of good cause. Without the protection of state franchise laws, it may also be more difficult for our U.S. dealerships to renew their franchise agreements upon expiration, which could materially adversely affect our results of operations, financial condition or cash flows. Jurisdictions outside the U.S. generally do not have these laws and, as a result, operate without these protections.

Our dealerships are subject to environmental regulations that may result in claims and liabilities which could be material.

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of storage tanks and the use, storage and disposal of hazardous substances. Our dealerships and service, parts and body shop operations in particular use, store and contract for recycling or disposal of hazardous materials. Any non-compliance with these regulations could result in significant fines, penalties and remediation costs which could adversely affect our results of operations, financial condition or cash flows.

In the U.S., we may also have liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under federal and state statutes. In that case, regulations may make us responsible for liability relating to the investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. In connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with dispositions of businesses, or dispositions previously made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material.

An expanding trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal or remediation requirements could have a material adverse effect on our results of operations and financial condition. Vehicle manufacturers are subject to federally mandated corporate average fuel economy standards, which will increase substantially over the next several years. Furthermore, in response to recent studies suggesting that emissions of carbon dioxide and certain other gases, referred to as greenhouse gases, may be contributing to warming of the Earth s atmosphere, climate change-related legislation to restrict greenhouse gas emissions is being considered at the state and federal level to reduce emissions of greenhouse gases. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide that may be imposed on vehicles and automobile fuels could adversely affect demand for some of the vehicles that we sell. Environmental laws and regulations are complex and subject to change. Compliance with any new or more stringent laws or regulations, stricter interpretations of existing laws, or the future discovery of environmental conditions could require additional expenditures by us which could materially adversely affect our results of operations, financial condition or cash flows.

Our principal stockholders have substantial influence over us and may make decisions with which you disagree.

Penske Corporation through various affiliates beneficially owns 34% of our outstanding common stock. In addition, Penske Corporation and its affiliates have entered into a stockholders agreement with our second largest stockholder, Mitsui & Co., Ltd. and one of its affiliates, pursuant to which they have agreed to vote together as to the election of our directors. Collectively, these two groups beneficially own 51% of our outstanding stock. As a result, these persons have the ability to control the composition of our Board of Directors and therefore they may be able to control the direction of our affairs and business. This concentration of ownership, as well as various provisions contained in our agreements with manufacturers, our certificate of incorporation and bylaws and the Delaware General Corporation Law, could have the affect of discouraging, delaying or preventing a change in control of us or unsolicited acquisition proposals. These provisions include the stock ownership limits imposed by various manufacturers and our ability to issue blank check preferred stock and the interested stockholder provisions of Section 203 of the Delaware General Corporation Law.

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

Some of our executive officers also hold executive positions at other companies affiliated with our largest stockholder. Roger S. Penske, our Chairman and Chief Executive Officer, is also Chairman and Chief Executive Officer of Penske Corporation, a diversified transportation services company. Robert H. Kurnick, Jr., our President and a director, is also President of Penske Corporation and Hiroshi Ishikawa, our Executive Vice President International Business Development and a director, serves in a similar capacity for Penske Corporation. Much of the compensation of these officers is paid by Penske Corporation and not by us, and while these officers have historically devoted a substantial amount of their time to our matters, these officers are not required to spend any specific amount of time on our matters. Furthermore, one of our directors, Richard J. Peters serves as a director of Penske Corporation. In addition, Penske Corporation owns Penske Motor Group, a privately held automotive dealership company with operations in southern California. Periodically, we have purchased or sold real property and improvements to Automotive Group Reality, a wholly-owned subsidiary of Penske Corporation, which in some cases we have then leased. Due to their relationships with these related entities, Messrs. Ishikawa, Kurnick, Penske, and Peters may have a conflict of interest in making any decision related to transactions between their related entities and us, or with respect to allocations of corporate opportunities.

Penske Corporation has pledged its shares of common stock to secure a loan facility.

Penske Corporation and certain of its affiliates have pledged all of their shares of our common stock as collateral to secure a loan facility. If a default under the loan facility were to occur, Penske Corporation would likely seek a waiver of that default, attempt to reset any covenant breached, or refinance the instrument and accompanying obligations. If it were unable to obtain this relief, under certain circumstances, the lenders under these loans could elect to foreclose on these shares. The market price of our common stock could materially decline if the lenders were to sell the pledged shares in the open market. In addition, a foreclosure on the shares by the lenders could materially affect Penske Corporation s voting rights relating to our Company and our relationships with the automotive manufacturers we represent. See *Automotive manufacturers impose limits on our ability to issue additional equity and on the ownership of our common stock by third parties, which may hamper our ability to meet our financing needs.* A substantial decrease in Penske Corporation s ownership of our Company could also lead to a default under or termination of existing or future agreements of ours. For example, the trademark agreement pursuant to which we license the Penske name could be terminated 24 months after the date that Penske Corporation and certain of its affiliates no longer own at least 20% of our voting stock.

Our operations outside the U.S. are subject to foreign currency risk and other risks associated with operating in foreign jurisdictions.

In recent years, between 30% and 40% of our revenues have been generated outside the U.S., predominately in the U.K. As a result, we are exposed to the risks involved in foreign operations, including:

- changes in foreign currency rates;
- changes in international tax laws and treaties, including increases of withholding and other taxes on remittances and other payments by subsidiaries;
- tariffs, trade barriers, and restrictions on the transfer of funds between nations;
- changes in international governmental regulations;
- the impact of local economic and political conditions; and
- the impact of European Commission regulation and the relationship between the U.K. and continental Europe.

If our operations outside the U.S. fail to perform as expected, we will be adversely impacted. In addition, our results of operations and financial position are reported in the local currency and are then translated into U.S. dollars at applicable foreign currency exchange rates for inclusion in our consolidated financial statements. As exchange rates fluctuate, particularly between the U.S. and U.K., our results of operations as reported in U.S. dollars will fluctuate. For example, if the U.S. dollar were to strengthen against the U.K. pound, our U.K. results of operations would translate into less U.S. dollar reported results.

Because a significant portion of our new vehicle business involves the sale of vehicles, vehicle parts or vehicles composed of parts that are manufactured outside the region in which they are sold, our operations are subject to customary risks associated with imported merchandise, including fluctuations in the relative value of currencies, import duties, exchange controls, differing tax structures, trade restrictions, transportation costs, work stoppages, and general political and economic conditions in foreign countries. Any of those fluctuations could materially affect our operations and our ability to purchase imported vehicles and parts at competitive prices as compared to products manufactured in the U.S., which could materially adversely affect our business.

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Our investments in joint ventures subject us to additional business risks, including the potential for future impairment charges if the joint ventures do not perform as expected.

We have invested in a variety of joint ventures, including retail automotive operations in Germany and a 9.0% limited partnership interest in Penske Truck Leasing (PTL). The net book value of our retail automotive joint venture investments, including PTL, was $281.4 million, as of December 31, 2009. We expect to receive future operating distributions from our joint venture investments and to realize U.S tax savings as a result of the investment in PTL. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial or regulatory requirements, changes in the financial health of the joint venture customers, labor strikes or work stoppages, lower asset utilization rates or industry competition negatively impact the results of the joint venture operations. In addition, if any of the businesses do not perform as expected, we may recognize an impairment charge which could be material and which could adversely affect our financial results for the periods in which any charge occurs.

We may write down the value of our goodwill or franchises which could have a material adverse impact on our results of operations and stockholders equity.

We have an aggregate of $1.0 billion of goodwill and franchise value on our consolidated balance sheet as of December 31, 2009. These intangible assets are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value based test. In the fourth quarter of 2008, we recorded a $606.3 million pre-tax goodwill impairment charge and a $37.1 million pre-tax franchise value impairment charge. If the growth assumptions embodied in our impairment tests prove inaccurate, we may incur incremental impairment charges. In particular, a decline of 20% or more in the estimated fair market value of our U.K. reporting unit would likely yield a significant write down of the goodwill attributable to our U.K. reporting unit. The net book value of the goodwill attributable to the U.K. reporting unit as of December 31, 2009 is approximately $339.5 million, a substantial portion of which would likely be written off if step one of the impairment test indicates impairment. If we experienced such a decline in our other reporting units, we would not expect to incur significant goodwill impairment charges. However, a 10% reduction in the estimated fair value of our franchises would result in franchise value impairment charges of approximately $5.7 million. Any such impairment charges could materially adversely affect our shareholders equity and other results of operations.

Item 1B. ***Unresolved Staff Comments***

Not Applicable.

Item 2. ***Properties***

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 of between five and 20 years, and are typically structured to include renewal options at our election. We lease office space in Bloomfield Hills, Michigan, Leicester, England and Stuttgart, Germany for our administrative headquarters and other corporate related activities. We believe that our facilities are sufficient for our needs and are in good repair.

Item 3. ***Legal Proceedings***

We are involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. We are not a party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

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

No matter was submitted to a vote of our security holders during the fourth quarter of the year ended December 31, 2009.

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PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities*

Our common stock is traded on the New York Stock Exchange under the symbol PAG. As of February 1, 2010, there were approximately 236 holders of record of our common stock. The following table sets forth the high and low sales prices for our common stock as reported on the New York Stock Exchange Composite Tape for each quarter of 2009 and 2008, as well as the per share dividends paid in each quarter.

	High	Low	Dividend
2008:			
First Quarter	$ 20.56	$ 13.57	$ 0.09
Second Quarter	22.51	14.67	0.09
Third Quarter	23.58	10.51	0.09
Fourth Quarter	11.54	5.04	0.09
2009:			
First Quarter	$ 10.34	$ 4.82	$
Second Quarter	18.86	8.88	
Third Quarter	21.40	14.33	
Fourth Quarter	19.15	14.21	

Dividends. 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 imposed by any then existing indebtedness and other factors considered relevant by the Board of Directors. The indenture governing our 7.75% senior subordinated notes contains, and any future indenture that governs any notes which may be issued by us may contain, certain limitations on our ability to pay dividends. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. We are a holding company whose assets consist primarily of the direct or indirect ownership of the capital stock of our operating subsidiaries. Consequently, our ability to pay dividends is dependent upon the earnings of our subsidiaries and their ability to distribute earnings and other advances and payments to us. Also, pursuant to the automobile franchise agreements to which our dealerships are subject, our dealerships are generally required to maintain a certain amount of working capital, which could limit our subsidiaries ability to pay us dividends.

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SHARE INVESTMENT PERFORMANCE

The following graph compares the cumulative total stockholder returns on our common stock based on an investment of $100 on December 31, 2004 and the close of the market on December 31 of each year thereafter against (i) the Standard & Poor s 500 Index and (ii) an industry/peer group consisting of Asbury Automotive Group, Inc., AutoNation, Inc., Group 1 Automotive, Inc., Lithia Motors Inc. and Sonic Automotive Inc. The graph assumes the reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Penske Automotive Group, Inc., The S&P 500 Index
And A Peer Group

* $100 invested on 12/31/04 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return					
	12/04	**12/05**	**12/06**	**12/07**	**12/08**	**12/09**
Penske Automotive Group, Inc.	100.00	130.91	163.36	122.71	55.53	109.76
S&P 500 Index	100.00	104.91	121.48	128.16	80.74	102.11
Peer Group	100.00	110.41	121.64	80.77	40.17	84.23

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Item 6. ***Selected Financial Data***

The following table sets forth our selected historical consolidated financial and other data as of and for each of the five years in the period ended December 31, 2009, which has been derived from our audited consolidated financial statements. During the periods presented, we made a number of acquisitions, each of which has been accounted for using the purchase method of accounting, pursuant to which our financial statements include the results of operations of the acquired dealerships from the date of acquisition. As a result, our period to period results of operations vary depending on the dates of the acquisitions. Accordingly, this selected financial data is not necessarily comparable or indicative of our future results. During the periods presented, we also sold certain dealerships which have been treated as discontinued operations in accordance with general accounting principles. Certain income statement and balance sheet amounts presented in the table below reflect the January 1, 2009 retrospective adoption of general accounting principles relating to debt with cash conversion options and earnings per share to all periods presented. The presentation and disclosure provisions of general accounting principles relating to non-controlling interests adopted on January 1, 2009 have also been applied retrospectively to all periods presented herein. You should read this selected consolidated financial data in conjunction with our audited consolidated financial statements and related footnotes included elsewhere in this report.

	As of and for the Years Ended December 31,				
	2009(1)	**2008(2)**	**2007(3)**	**2006**	**2005(4)**
	(In millions, except per share data)				
Consolidated Statement of Operations Data:					
Total revenues	$ 9,523.1	$ 11,637.1	$ 12,781.7	$ 10,938.0	$ 9,370.6
Gross profit	$ 1,582.3	$ 1,790.2	$ 1,896.5	$ 1,656.5	$ 1,426.2
Income (loss) from continuing operations attributable to Penske Automotive Group common stockholders (5)	$ 83.6	$ (412.6)	$ 119.2	$ 124.3	$ 116.7
Net income (loss) attributable to Penske Automotive Group common stockholders	$ 76.5	$ (420.0)	$ 120.3	$ 118.3	$ 119.0
Diluted earnings (loss) per share from continuing operations attributable to Penske Automotive Group common stockholders	$ 0.91	$ (4.39)	$ 1.25	$ 1.31	$ 1.24
Diluted earnings (loss) per share attributable to Penske Automotive Group common stockholders	$ 0.83	$ (4.47)	$ 1.27	$ 1.25	$ 1.26
Shares used in computing diluted share data	91.7	94.0	95.0	94.6	94.2
Balance Sheet Data:					
Total assets	$ 3,796.0	$ 3,962.1	$ 4,667.1	$ 4,467.9	$ 3,594.2
Total floor plan notes payable	$ 1,196.2	$ 1,469.4	$ 1,524.7	$ 1,147.5	$ 1,065.0
Total debt (excluding floor plan notes payable)	$ 946.4	$ 1,063.4	$ 794.8	$ 1,119.3	$ 580.2
Total equity attributable to Penske Automotive Group common stockholders	$ 942.5	$ 804.8	$ 1,450.7	$ 1,332.3	$ 1,145.7
Cash dividends per share	$	$ 0.36	$ 0.30	$ 0.27	$ 0.23

(1) Includes 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 and charges of $5.2 million ($3.4 million after-tax), or $0.04 per share, relating to costs associated with the termination of the acquisition of the Saturn brand, our election to close three franchises in the U.S. and charges relating to our interest rate hedges of variable rate floor plan notes payable as a result of decreases in our vehicle inventories, and resulting decreases in outstanding floor plan notes payable, below hedged levels.

(2) Includes charges of

$661.9 million ($505.2 million after-tax), or $5.37 per share, including $643.5 million ($493.2 million after-tax), or $5.25 per share, relating to goodwill and franchise asset impairments, as well as, an additional $18.4 million ($12.0 million after-tax), or $0.13 per share, of dealership consolidation and relocation costs, severance costs, other asset impairment charges, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike.

(3) Includes charges of $18.6 million ($12.3 million after-tax), or $0.13 per share, relating to the redemption of the $300.0 million aggregate

amount of 9.625% Senior Subordinated Notes and $6.3 million ($4.5 million after-tax), or $0.05 per share, relating to impairment charges.

(4) Includes $8.2 million ($5.2 million after-tax), or $0.06 per share, of earnings attributable to the sale of all the remaining variable profits relating to the pool of extended service contracts sold at our dealerships from 2001 through 2005.

(5) Excludes income from continuing operations attributable to non-controlling interests of $0.5 million, $1.1 million, $2.0 million, $2.2 million and $1.8 million in 2009, 2008, 2007, 2006 and 2005, respectively.

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Item 7. *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 Item 1A. Risk Factors and 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 December 31, 2009.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of December 31, 2009, we owned and operated 158 franchises in the U.S. and 148 franchises outside of the U.S., primarily in the U.K. We offer a full range of vehicle brands with 95% of our total retail revenue in 2009 generated from brands of non-U.S. based manufacturers, and 65% generated from premium brands, such as Audi, BMW, Cadillac and Porsche. 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 63% of our total revenues in 2009 generated by operations in the U.S. and Puerto Rico and 37% generated from our operations outside the U.S. (predominately in the U.K.).

We are also, through smart USA Distributor, LLC, 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 more than 40 miles per gallon on the highway and is an ultra-low emissions vehicle as certified by the State of California Air Resources Board. As of December 31, 2009, 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. smart USA wholesaled 27,052 smart fortwo vehicles in 2008 and 13,772 smart fortwo vehicles in 2009.

In June 2008, we 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. 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.

Outlook

During 2009, there has been continued weakness in consumer confidence and spending in the markets in which we operate, which we believe has resulted in reduced customer traffic in our dealerships. While we have experienced increased vehicle sales and customer traffic in recent quarters, we expect our business to remain significantly impacted by difficult economic conditions in 2010.

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, the sale of replacement parts and the sale of aftermarket accessories. During 2009, the challenging operating environment contributed to a year over year decline in same store new and used vehicle unit sales and finance and insurance revenues. Our same store service and parts business also experienced a decline during the year, although

less so than vehicle sales. We expect a continuation of this difficult operating environment in 2010.
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 inventory and vehicle availability, 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.

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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 in 2009, due in part to lower vehicle sales volumes, coupled with cost savings in compensation and advertising. Our rent expense is expected to grow as a result of cost of living indexes outlined in our lease agreements; however, a portion of the rent increase has been offset by concessions granted by certain landlords in recognition of current market conditions.

Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing. The cost of our variable rate indebtedness is typically based on benchmark lending rates, which are based in large part upon national inter-bank lending rates set by local governments. During the latter part of 2008, such benchmark rates were significantly reduced due to 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 year ended December 31, 2009; however, the significance of this decrease is limited somewhat by increases in rate spreads being charged by our vehicle finance partners.

Equity in earnings of affiliates represents our share of the earnings relating to investments in 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 in 2010.

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 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 completed 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. Reimbursement of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain 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 years ended December 31, 2009, 2008 and 2007, we earned $319.8 million, $323.9 million and $343.9 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $314.1 million, $316.4 million and $337.3 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.

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 amount and estimated fair value. 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. The fair value of franchise value is determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, and our cost of capital. We also evaluate our franchise agreements in connection with the annual impairment testing to determine whether events and circumstances continue to support our assessment that the franchise agreements have 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 reportable segment. There is no goodwill recorded in our Distribution or PAG Investments reportable segments. An indicator of goodwill impairment exists if the carrying amount of the reporting unit, including goodwill, is determined to exceed the estimated fair value. The fair value of goodwill is 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. 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.

Investments

In 2009, investments included investments in businesses accounted for under the equity method. In 2008 and 2007, investments also included marketable securities. A majority of our investments are in joint venture relationships that are more fully described in Joint Venture Relationships below. Such joint venture relationships are accounted for under the equity method, pursuant to which we record our proportionate share of the joint ventures income each period. In December 2009, we exited from our joint venture investment in Mexico and in June 2008, we acquired a 9.0% limited partnership interest in PTL for $219.0 million from GE Capital.

The net book value of our investments was $295.5 million and $297.8 million as of December 31, 2009 and 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 significant portion 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 the 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 $21.5 million and $19.2 million as of December 31, 2009 and 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.

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Income Taxes

Tax regulations may require items to be included in our tax return at different times than those items are reflected in our financial statements. Some of the 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 $6.1 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) became 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 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, 2008, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2010.

2009 compared to 2008 and 2008 compared to 2007 (in millions, except unit and per unit amounts)

Our results for the year ended December 31, 2009 include a gain of $10.4 million ($6.5 million after-tax), or $0.07 per share, relating to the repurchase of $68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes and charges of $5.2 million ($3.4 million after-tax), or $0.04 per share, relating to costs associated with the termination of the acquisition of the Saturn brand, our election to close three franchises in the U.S. and charges relating to our interest rate hedges of variable rate floor plan notes payable as a result of decreases in our vehicle inventories, and resulting decreases in outstanding floor plan notes payable, below hedged levels.

Retail unit sales of new vehicles during the year ended December 31, 2009 include approximately 9,500 units sold under the cash for clunkers program in the U.S. and similar scrappage programs in the other markets where we operate.

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Our results for the year ended December 31, 2008 include charges of $661.9 million ($505.2 million after-tax), or $5.37 per share, including $643.4 million ($493.2 million after-tax) of non-cash goodwill and franchise asset impairments, as well as, an additional $18.4 million ($12.0 million after-tax) of dealership consolidation and relocation costs, severance costs, other asset impairment charges, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike.

Our results for the year ended December 31, 2007 include charges of $18.6 million ($12.3 million after-tax) relating to the redemption of the $300.0 million aggregate principal amount of 9.625% Senior Subordinated Notes and $6.3 million ($4.5 million after-tax) relating to impairment charges.

New Vehicle Data

			2009 vs. 2008				2008 vs. 2007	
New Vehicle Data	**2009**	**2008**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
New retail unit sales	140,914	171,554	(30,640)	(17.9)%	171,554	192,936	(21,382)	(11.1)%
Same-store new retail unit sales	133,317	167,232	(33,915)	(20.3)%	151,646	181,644	(29,998)	(16.5)%
New retail sales revenue	$ 4,662.4	$ 5,935.9	$ (1,273.5)	(21.5)%	$ 5,935.9	$ 6,929.5	$ (993.6)	(14.3)%
Same-store new retail sales revenue	$ 4,388.6	$ 5,776.3	$ (1,387.7)	(24.0)%	$ 5,354.4	$ 6,555.7	$ (1,201.3)	(18.3)%
New retail sales revenue per unit	$ 33,087	$ 34,601	$ (1,514)	(4.4)%	$ 34,601	$ 35,916	$ (1,315)	(3.7)%
Same-store new retail sales revenue per unit	$ 32,919	$ 34,540	$ (1,621)	(4.7)%	$ 35,308	$ 36,091	$ (783)	(2.2)%
Gross profit new	$ 376.2	$ 486.4	$ (110.2)	(22.7)%	$ 486.4	$ 583.0	$ (96.6)	(16.6)%
Same-store gross profit new	$ 352.4	$ 471.7	$ (119.3)	(25.3)%	$ 436.1	$ 549.6	$ (113.5)	(20.7)%
Average gross profit per new vehicle retailed	$ 2,670	$ 2,835	$ (165)	(5.8)%	$ 2,835	$ 3,022	$ (187)	(6.2)%
Same-store average gross profit per new vehicle retailed	$ 2,643	$ 2,821	$ (178)	(6.3)%	$ 2,876	$ 3,026	$ (150)	(5.0)%
Gross margin% new	8.1%	8.2%	(0.1)%	(1.2)%	8.2%	8.4%	(0.2)%	(2.4)%
Same-store gross margin% new	8.0%	8.2%	(0.2)%	(2.4)%	8.1%	8.4%	(0.3)%	(3.6)%

Units

Retail unit sales of new vehicles decreased 30,640 units, or 17.9%, from 2008 to 2009, and decreased 21,382 units, or 11.1%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a 33,915 unit, or 20.3%, decrease in same-store new retail unit sales, offset by a 3,275 unit increase from net dealership acquisitions during the year. The same-store decrease from 2008 to 2009 was due primarily to unit sales decreases in our volume foreign and domestic brand stores in the U.S. and premium brand stores in the U.S. and U.K. The decrease from 2007 to 2008 is due to a 29,998 unit, or 16.5%, decrease in same-store new retail unit sales, offset by a 8,616 unit increase from net dealership acquisitions during the year. The same-store decrease from 2007 to 2008 was driven by decreases in premium brands in the U.S.

and U.K. and volume foreign and domestic brands in the U.S. We believe our sales of new vehicle units was influenced by the reduction in traffic in our stores resulting from the decline in consumer confidence, coupled with customers electing to purchase used vehicles as a less expensive alternative to new vehicles due to the challenging economic climate.

Revenues

New vehicle retail sales revenue decreased $1.3 billion, or 21.5%, from 2008 to 2009 and decreased $993.6 million, or 14.3%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $1.4 billion, or 24.0%, decrease in same-store revenues, offset by a $114.2 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due primarily to the 20.3% decrease in new retail unit sales, which decreased revenue by $1.2 billion, coupled with a $1,621, or 4.7%, decrease in comparative average selling price per unit which decreased revenue by $216.1 million. The decrease from 2007 to 2008 is due to a $1.2 billion, or 18.3%, decrease in same-store revenues, offset by a $207.7 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due primarily to the 16.5% decrease in new retail unit sales, which decreased revenue by $1.1 billion, coupled with a $783, or 2.2%, decrease in comparative average selling price per unit which decreased revenue by $118.7 million.

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Gross Profit

Retail gross profit from new vehicle sales decreased $110.2 million, or 22.7%, from 2008 to 2009, and decreased $96.6 million, or 16.6%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $119.3 million, or 25.3%, decrease in same-store gross profit, offset by a $9.1 million increase from net dealership acquisitions during the year. The same-store retail gross profit decrease is due primarily to the 20.3% decrease in retail unit sales, which decreased gross profit by $95.6 million, coupled with a $178, or 6.3%, decrease in average gross profit per new vehicle retailed, which decreased gross profit by $23.7 million. The decrease from 2007 to 2008 is due to a $113.5 million, or 20.7%, decrease in same-store gross profit, offset by a $16.9 million increase from net dealership acquisitions during the year. The same-store retail gross profit decrease is due to the 16.5% decrease in new retail unit sales, which decreased gross profit by $90.8 million, coupled with a $150, or 5.0%, decrease in average gross profit per new vehicle retailed, which decreased gross profit by $22.7 million.

Used Vehicle Data

		2009 vs. 2008				2008 vs. 2007		
Used Vehicle Data	**2009**	**2008**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
Used retail unit sales	102,457	102,032	425	0.4%	102,032	100,193	1,839	1.8%
Same-store used retail unit sales	95,731	99,343	(3,612)	(3.6)%	95,450	95,313	137	0.1%
Used retail sales revenue	$ 2,600.7	$ 2,848.1	$ (247.4)	(8.7)%	$ 2,848.1	$ 3,097.8	$ (249.7)	(8.1)%
Same-store used retail sales revenue	$ 2,406.8	$ 2,763.3	$ (356.5)	(12.9)%	$ 2,646.7	$ 2,960.1	$ (313.4)	(10.6)%
Used retail sales revenue per unit	$ 25,383	$ 27,913	$ (2,530)	(9.1)%	$ 27,913	$ 30,918	$ (3,005)	(9.7)%
Same-store used retail sales revenue per unit	$ 25,141	$ 27,816	$ (2,675)	(9.6)%	$ 27,728	$ 31,057	$ (3,329)	(10.7)%
Gross profit used	$ 224.3	$ 213.4	$ 10.9	5.1%	$ 213.4	$ 242.0	$ (28.6)	(11.8)%
Same-store gross profit used	$ 209.1	$ 207.7	$ 1.4	0.7%	$ 200.2	$ 233.4	$ (33.2)	(14.2)%
Average gross profit per used vehicle retailed	$ 2,190	$ 2,092	$ 98	4.7%	$ 2,092	$ 2,415	$ (323)	(13.4)%
Same-store average gross profit per used vehicle retailed	$ 2,185	$ 2,091	$ 94	4.5%	$ 2,098	$ 2,449	$ (351)	(14.3)%
Gross margin % used	8.6%	7.5%	1.1%	14.7%	7.5%	7.8%	(0.3)%	(3.8)%
Same-store gross margin % used	8.7%	7.5%	1.2%	16.0%	7.6%	7.9%	(0.3)%	(3.8)%

Units

Retail unit sales of used vehicles increased 425 units, or 0.4%, from 2008 to 2009 and increased 1,839 units, or 1.8%, from 2007 to 2008. The increase from 2008 to 2009 is due to a 4,037 unit increase from net dealership acquisitions during the year, offset by a 3,612, or 3.6%, decrease in same-store used retail unit sales. The same-store decrease in 2009 versus 2008 was due primarily to unit sales decreases in volume foreign and domestic brand stores in the U.S., offset by increases in unit sales at premium brand stores in the U.S. The increase from 2007 to 2008 is due to a 1,702 unit increase from net dealership acquisitions during the year, coupled with a 137 unit, or 0.1%, increase in same-store used retail unit sales. The same-store decrease in 2008 versus 2007 was driven primarily by decreases in our premium brands in the U.K. and volume foreign brands in the U.S., offset by increases in our premium brands in the U.S. We believe our sales of used vehicle units was 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 $247.4 million, or 8.7%, from 2008 to 2009 and decreased $249.7 million, or 8.1%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $356.5 million, or 12.9%, decrease in same-store revenues, offset by a $109.1 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due to a $2,675, or 9.6%, decrease in comparative average selling price per vehicle, which decreased revenue by $256.1 million, coupled with the 3.6% decrease in retail unit sales, which decreased revenue by $100.4 million. The decrease from 2007 to 2008 is due to a $313.4 million, or 10.6%, decrease in same-store revenues, offset by a $63.7 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due primarily to the $3,329, or 10.7%, decrease in comparative average selling price per vehicle, which decreased revenue by $317.2 million, offset by the 0.1% increase in retail unit sales, which increased revenue by $3.8 million.

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Gross Profit

Retail gross profit from used vehicle sales increased $10.9 million, or 5.1%, from 2008 to 2009 and decreased $28.6 million, or 11.8%, from 2007 to 2008. The increase from 2008 to 2009 is due to a $9.5 million increase from net dealership acquisitions during the year, coupled with a $1.4 million or 0.7%, increase in same-store gross profit. The same-store gross profit increase is primarily due to the $94, or 4.5%, increase in average gross profit per used vehicle retailed, which increased gross profit by $9.0 million, offset by the 3.6% decrease in used retail unit sales, which decreased gross profit by $7.6 million. The decrease from 2007 to 2008 is due to a $33.2 million, or 14.2%, decrease in same-store gross profit, offset by a $4.6 million increase from net dealership acquisitions during the year. The same-store gross profit decrease from 2007 to 2008 is due to a $351, or 14.3%, decrease in average gross profit per used vehicle retailed, which decreased gross profit by $33.5 million, offset by the 0.1% increase in used retail unit sales, which increased gross profit by $0.3 million.

Finance and Insurance Data

			2009 vs. 2008				2008 vs. 2007	
Finance and Insurance Data	**2009**	**2008**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
Total retail unit sales	243,371	273,586	(30,215)	(11.0)%	273,586	293,129	(19,543)	(6.7)%
Total same-store retail unit sales	229,048	266,575	(37,527)	(14.1)%	247,096	276,957	(29,861)	(10.8)%
Finance and insurance revenue	$ 222.7	$ 259.3	$ (36.6)	(14.1)%	$ 259.3	$ 286.3	$ (27.0)	(9.4)%
Same-store finance and insurance revenue	$ 211.0	$ 253.8	$ (42.8)	(16.9)%	$ 240.1	$ 275.6	$ (35.5)	(12.9)%
Finance and insurance revenue per unit	$ 915	$ 948	$ (33)	(3.5)%	$ 948	$ 977	$ (29)	(3.0)%
Same-store finance and insurance revenue per unit	$ 921	$ 952	$ (31)	(3.3)%	$ 972	$ 995	$ (23)	(2.3)%

Finance and insurance revenue decreased $36.6 million, or 14.1%, from 2008 to 2009 and decreased $27.0 million, or 9.4%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $42.8 million, or 16.9%, decrease in same-store revenues, offset by an $6.2 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due to the 14.1% decrease in retail unit sales, which decreased revenue by $35.7 million, coupled with a $31, or 3.3%, decrease in comparative average finance and insurance revenue per unit retailed, which decreased revenue by $7.1 million. The $31 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. The decrease from 2007 to 2008 is due to a $35.5 million, or 12.9%, decrease in same-store revenues, offset by an $8.5 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due to the 10.8% decrease in retail unit sales, which decreased revenue by $29.8 million, coupled with a $23, or 2.3%, decrease in comparative average finance and insurance revenue per unit retailed, which decreased revenue by $5.7 million. The $23 decrease in comparative average finance and insurance revenue per unit retailed is due primarily to decreased sales penetration of certain products which we believe resulted in part from the challenging economic conditions.

Service and Parts Data

			2009 vs. 2008				2008 vs. 2007	
Service and Parts Data	**2009**	**2008**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
Service and parts revenue	$ 1,321.6	$ 1,403.5	$ (81.9)	(5.8)%	$ 1,403.5	$ 1,392.3	$ 11.2	0.8%
Same-store service and parts revenue	$ 1,236.2	$ 1,352.3	$ (116.1)	(8.6)%	$ 1,296.3	$ 1,329.2	$ (32.9)	(2.5)%

Gross profit	$ 728.1	$ 780.5	$ (52.4)	(6.7)%	$ 780.5	$ 778.2	$ 2.3	0.3%
Same-store gross profit	$ 683.0	$ 754.2	$ (71.2)	(9.4)%	$ 723.1	$ 744.7	$ (21.6)	(2.9)%
Gross margin	55.1%	55.6%	(0.5)%	(0.9)%	55.6%	55.9%	(0.3)%	(0.5)%
Same-store gross margin	55.3%	55.8%	(0.5)%	(0.9)%	55.8%	56.0%	(0.2)%	(0.4)%

Revenues

Service and parts revenue decreased $81.9 million, or 5.8%, from 2008 to 2009 and increased $11.2 million, or 0.8%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $116.1 million, or 8.6%, decrease in same-store revenues, offset by a $34.2 million increase from net dealership acquisitions during the year. The same-store decrease is due in part to a decline in pre-inspection and delivery work on new vehicle inventories due to the 20.3% decrease in same store new vehicle retail unit sales, coupled with a 9.2% same store decrease in body shop revenue. The increase from 2007 to 2008 is due to a $44.1 million increase from net dealership acquisitions during the year, offset by a $32.9 million, or 2.5%, decrease in same-store revenues. The same-store decrease largely resulted from a decline in revenues in the second half of the year, due in part to challenging economic conditions.

Gross Profit

Service and parts gross profit decreased $52.4 million, or 6.7%, from 2008 to 2009 and increased $2.3 million, or 0.3%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $71.2 million, or 9.4%, decrease in same-store gross profit, offset by a $18.8 million increase from net dealership acquisitions during the year. The same-store gross profit decrease is due to the $116.1 million, or 8.6%, decrease in revenues, which decreased gross profit by $64.2 million, coupled with a 0.5% decrease in gross margin percentage, which decreased gross profit by $7.0 million. The increase from 2007 to 2008 is due to a $23.9 million increase from net dealership acquisitions during the year, offset by a $21.6 million, or 2.9%, decrease in same-store gross profit. The same-store gross profit decrease is due to the $32.9 million, or 2.5%, decrease in revenues, which decreased gross profit by $18.4 million, coupled with a 0.4% decrease in gross margin percentage, which decreased gross profit by $3.2 million. In 2009 and 2008, the gross margin realized on parts, service and collision repairs declined compared to the prior year period, due in part to a higher proportion of sales of lower margin activities such as standard oil changes and tire sales. We believe customers in 2009 chose to forgo or delay significant repair and maintenance work due to the current economic environment.

Distribution

Our wholly-owned subsidiary, smart USA, began distribution the smart fortwo vehicle in the U.S. in 2008. Distribution units wholesaled during 2009 decreased 13,280 units, or 49.1%, from 27,052 during 2008 to 13,772 during 2009. Total distribution segment revenue decreased $203.6 million, or 49.7%, from $409.6 million during 2008 to $206.0 million during 2009. Segment gross profit, which includes gross profit on vehicle and parts sales, totaled $18.0 million and $55.3 million during the years ended December 31, 2009 and 2008, respectively. Total gross profit for the year ended December 31, 2009 includes $8.3 million related to finance and marketing campaigns designed to spur sales of the balance of the 2009 model year inventory.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses decreased $174.9 million, or 11.7%, from 2008 to 2009 and decreased $13.8 million, or 0.9%, from 2007 to 2008. The aggregate decrease from 2008 to 2009 is due primarily to a $201.4 million, or 14.0%, decrease in same-store SG&A expenses, offset by a $26.5 million increase from net dealership acquisitions during the year. The decrease in same-store SG&A expenses from 2008 to 2009 is due to (1) a net decrease in variable selling expenses, including decreases in variable compensation, as a result of the 13.7% decrease in same-store retail gross profit versus the prior year and (2) other cost savings initiatives in 2008 and 2009, such as headcount reductions, the amendment of pay plans, reduction in advertising activities, and the suspension of matching contributions to certain of our defined contribution plans, offset by (1) charges incurred during 2009 relating to costs associated with the termination of the acquisition of the Saturn brand and our election to close three franchises in the U.S., and (2) increased rent and other costs relating to our ongoing facility improvement and expansion programs. The aggregate decrease from 2007 to 2008 is due to a $103.8 million, or 7.2%, decrease in same-store SG&A expenses, offset by a $90.0 million increase from net dealership acquisitions during the year. The decrease in same-store SG&A expenses from 2007 to 2008 is due in large part to (1) a decrease in variable selling expenses, including decreases in variable compensation, as a result of the 11.3% decrease in same-store retail gross profit versus the prior year and (2) other cost savings initiatives in 2008, such as headcount reductions, the amendment of pay plans, reduction in advertising activities, and the agreement from our Chief Executive Officer and President to forgo all bonus amounts payable under their 2008 management incentive plans and from our Board of Directors electing to forgo approximately 25% of its annual cash fee relating to 2008, offset by (1) $18.4 million in charges incurred during 2008 related to dealership consolidation and relocation costs, severance costs, other asset impairment charges, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike, (2) $23.0 million of additional costs associated with the smart distribution business, and (3) increased rent and related costs due in part to our facility improvement and expansion programs during the year.

SG&A expenses as a percentage of total revenue were 13.9%, 12.8% and 11.8% in 2009, 2008 and 2007, respectively, and as a percentage of gross profit were 83.4%, 83.5% and 79.5% in 2009, 2008 and 2007, respectively.

Intangible Impairments

Due in large part to deterioration in our operating results and turbulence in worldwide credit markets in the fourth quarter of 2008, we recorded a non-cash goodwill impairment charge of $606.3 million ($470.4 million after-tax) and $37.1 million ($22.8 million after-tax) of non-cash franchise value impairment charges.

Depreciation and Amortization

Depreciation and amortization increased $0.4 million, or 0.7%, from 2008 to 2009 and increased $3.9 million, or 7.7%, from 2007 to 2008. The increase from 2008 to 2009 is due to a $0.7 million increase from net dealership acquisitions during the year, offset by a $0.3 million, or 0.6%, decrease in same-store depreciation and amortization. The increase from 2007 to 2008 is due to a $2.2 million increase from net dealership acquisitions during the year, coupled with a $1.7 million, or 3.5%, increase in same-store depreciation and amortization.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, decreased $28.5 million, or 44.4%, from 2008 to 2009 and decreased $8.9 million, or 12.2%, from 2007 to 2008. The decrease from 2008 to 2009 is primarily due to a $27.8 million, or 45.0%, decrease in same-store floor plan interest expense. 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. The decrease from 2007 to 2008 is due to a $10.8 million, or 15.6%, decrease in same-store floor plan interest expense, offset by a $1.9 million increase from net dealership acquisitions during the year. The same store decrease in 2008 is due to decreases in the underlying variable rates of our revolving floor plan arrangements during the first three quarters of 2008, offset by increases in our average amounts outstanding and, beginning in the fourth quarter, increased interest rates charged to us by our finance partners. While the base rate under these arrangements were generally lower in 2008 versus 2007 due to government actions designed to spur liquidity and bank lending activities, certain of our lenders reacted to increases in their cost of capital by raising the spread charged to us, or establishing minimum lending rates. The majority of these increases occurred during the fourth quarter and some were not effective until 2009. Due to these relative increases, we did not realize the full benefit of the lower base rates in 2009 compared to 2008.

Other Interest Expense

Other interest expense increased $0.7 million, or 1.3%, from 2008 to 2009 and decreased $0.8 million, or 1.4%, from 2007 to 2008. The increase from 2008 to 2009 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 (1) our 2009 repurchase of $68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes, (2) $60.0 million of our U.S. credit agreement term loan repayments, and (3) decreases in benchmark lending rates. The decrease from 2007 to 2008 is due to a decrease in our weighted average borrowing rate, offset in part by an increase in our average total outstanding indebtedness in 2008, primarily resulting from the debt incurred relating to our investment in PTL.

Debt Discount Amortization

Debt discount amortization decreased $0.9 million, or 6.7%, from 2008 to 2009 and increased $1.1 million, or 8.4%, from 2007 to 2008. The decrease from 2008 to 2009 is 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. The increase from 2007 to 2008 is a result of the requirement to amortize the debt discount over the expected life of the obligation so as to maintain a consistent effective interest rate.

Equity in Earnings of Affiliates

Equity in earnings of affiliates decreased $2.7 million, from 2008 to 2009 and increased $12.4 million, from 2007 to 2008. 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. The increase from 2007 to 2008 is largely due to 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, net of debt discount, of $62.8 million 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.

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Income Taxes

Income taxes increased $151.1 million, or 142.9%, from 2008 to 2009 and decreased $167.5 million, or 271.1%, from 2007 to 2008. The increase from 2008 to 2009 is due to the increase in our pre-tax income versus the prior year. The income tax benefit recorded in 2008 was approximately 20%, which was significantly impacted by the write-off of goodwill that is not deductible for tax purposes. Excluding the impact of the impairment charge, our annual effective tax rate was 35.3% in 2008 compared to 35.1% in 2009 and 33.8% in 2007.

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 our 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 discussed in more detail below, we have currently outstanding $262.2 million ($306.3 million on December 31, 2009) in 3.5% senior subordinated convertible notes. We currently expect to be required to redeem these notes in April 2011 if we do not otherwise refinance them prior to April 2011. As of December 31, 2009, we had working capital of $113.6 million, including $13.8 million of cash, available to fund our operations and capital commitments. In addition, we had $250.0 million and £65.5 million ($105.9 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, each of which is discussed below.

We have historically expanded our retail automotive operations through organic growth and the acquisition of retail automotive dealerships. In addition, one of our subsidiaries is the exclusive distributor of smart fortwo vehicles in the U.S. and Puerto Rico. We believe that cash flow from operations and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our operations and commitments for at least the next twelve months. To the extent we pursue additional significant acquisitions, other expansion opportunities, significant repurchases of our outstanding securities, or refinance or repay existing debt (including our 3.5% senior subordinated convertible notes), 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, as well as Item 1A Risk Factors.

Share Repurchases and Dividends

During 2009, we repurchased $68.7 million aggregate principal amount of 3.5% senior subordinated convertible notes for $51.4 million under a securities repurchase program approved by our board of directors for up to $150.0 million. During 2008, we repurchased 4.015 million shares for $53.7 million, or an average of $13.36 per share, under this program. In the first quarter of 2010, we exhausted the authority under this program by repurchasing an additional $44.1 million aggregate principal amount of 3.5% senior subordinated convertible notes for $44.4 million. In February 2010, our board of directors approved an additional $150.0 million in authority to repurchase our outstanding securities. Under this new 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 business, as well as any then-existing limits imposed by our finance agreements and securities trading policy.

We paid the following dividends in 2007 and 2008:

Per Share Dividends

2007 :	First Quarter	$ 0.07	**2008**:	First Quarter	$ 0.09

Second Quarter	0.07	Second Quarter	0.09
Third Quarter	0.07	Third Quarter	0.09
Fourth Quarter	0.09	Fourth Quarter	0.09

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 an