PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
October 25, 2007

Table of Contents

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

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:
(248)648-2500

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

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

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o

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

As of October 17, 2007, there were 95,014,632 shares of voting common stock outstanding.

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets as of September 30, 2007 and December 31, 2006	3
Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2007 and 2006	4
Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2007 and 2006	5
Consolidated Condensed Statement of Stockholders Equity for the nine months ended September 30, 2007	6
Notes to Consolidated Condensed Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative & Qualitative Disclosures About Market Risk	45
Item 4. Controls and Procedures	45
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	46
Item 6. Exhibits	47

Exhibit 12
Exhibit 31
Exhibit 32

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2007	December 31, 2006
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 24,830	$ 13,147
Accounts receivable, net of allowance for doubtful accounts of $2,873 and $2,836	495,062	468,810
Inventories, net	1,557,335	1,518,759
Other current assets	97,205	71,492
Assets held for sale	155,318	200,372
Total current assets	2,329,750	2,272,580
Property and equipment, net	566,057	581,969
Goodwill	1,321,600	1,259,437
Franchise value	299,183	246,118
Other assets	102,011	109,698
Total assets	$ 4,618,601	$ 4,469,802
LIABILITIES AND STOCKHOLDERS EQUITY		
Floor plan notes payable	$ 1,058,995	$ 874,326
Floor plan notes payable non-trade	440,483	298,222
Accounts payable	264,545	300,764
Accrued expenses	290,003	214,200
Current portion of long-term debt	14,969	13,385
Liabilities held for sale	72,961	52,213
Total current liabilities	2,141,956	1,753,110
Long-term debt	792,674	1,168,666
Other long-term liabilities	280,211	252,373
Total liabilities	3,214,841	3,174,149
Commitments and contingent liabilities		
Stockholders Equity		
Preferred Stock, $0.0001 par value; 100 shares authorized; none issued and outstanding		

Common Stock, $0.0001 par value, 240,000 shares authorized; 95,011 shares issued at September 30, 2007; 94,468 shares issued at December 31, 2006	9	9
Non-voting Common Stock, $0.0001 par value, 7,125 shares authorized; none issued and outstanding		
Class C Common Stock, $0.0001 par value, 20,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	730,210	768,794
Retained earnings	566,713	492,704
Accumulated other comprehensive income	106,828	79,379
Treasury stock, at cost; 0 shares at September 30, 2007 and 5,306 shares at December 31, 2006		(45,233)
Total stockholders equity	1,403,760	1,295,653
Total liabilities and stockholders equity	$ 4,618,601	$ 4,469,802

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 (Restated)*	2007	2006 (Restated)*
	(Unaudited) (In thousands, except per share amounts)			
Revenue:				
New vehicle	$ 1,896,455	$ 1,670,797	$ 5,361,649	$ 4,676,041
Used vehicle	792,793	680,227	2,405,760	1,864,087
Finance and insurance, net	78,989	66,760	222,887	189,886
Service and parts	359,628	318,471	1,068,587	918,066
Fleet and wholesale vehicle	278,122	235,879	815,064	696,520
Total revenues	3,405,987	2,972,134	9,873,947	8,344,600
Cost of sales:				
New vehicle	1,735,800	1,527,563	4,910,574	4,268,519
Used vehicle	729,260	623,854	2,216,210	1,703,645
Service and parts	159,836	142,127	472,829	411,398
Fleet and wholesale vehicle	277,595	235,027	810,575	691,462
Total cost of sales	2,902,491	2,528,571	8,410,188	7,075,024
Gross profit	503,496	443,563	1,463,759	1,269,576
Selling, general and administrative expenses	394,565	350,648	1,156,802	1,005,569
Depreciation and amortization	13,057	11,388	39,155	32,315
Operating income	95,874	81,527	267,802	231,692
Floor plan interest expense	(19,536)	(15,647)	(55,055)	(45,680)
Other interest expense	(12,454)	(11,088)	(44,230)	(34,471)
Equity in earnings of affiliates	1,475	2,389	3,183	5,507
Loss on debt redemption			(18,634)	
Income from continuing operations before income taxes and minority interests	65,359	57,181	153,066	157,048
Income taxes	(22,418)	(20,590)	(54,110)	(57,150)
Minority interests	(531)	(478)	(1,527)	(1,536)

Income from continuing operations		42,410		36,113		97,429		98,362
Income (loss) from discontinued operations, net of tax		990		(2,383)		908		(3,984)
Net income	$	43,400	$	33,730	$	98,337	$	94,378
Basic earnings per share:								
Continuing operations	$	0.45	$	0.39	$	1.04	$	1.05
Discontinued operations		0.01		(0.03)		0.01		(0.04)
Net income		0.46		0.36		1.05		1.01
Shares used in determining basic earnings per share		94,244		93,754		94,037		93,257
Diluted earnings per share:								
Continuing operations	$	0.45	$	0.38	$	1.03	$	1.05
Discontinued operations		0.01		(0.03)		0.01		(0.04)
Net income		0.46		0.36		1.04		1.00
Shares used in determining diluted earnings per share		94,614		94,288		94,512		94,085
Cash dividends per share	$	0.07	$	0.07	$	0.21	$	0.20

* See Note 1

See Notes to Consolidated Condensed Financial Statements

Table of Contents

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (Restated)*
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 98,337	$ 94,378
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	39,155	32,315
Undistributed earnings of equity method investments	(3,183)	(5,507)
(Income) Loss from discontinued operations, net of tax	(908)	3,984
Deferred income taxes	11,323	16,776
Loss on debt redemption	18,634	
Minority interests	1,527	1,536
Changes in operating assets and liabilities:		
Accounts receivable	(26,869)	(27,891)
Inventories	(22,684)	(82,509)
Floor plan notes payable	192,312	66,874
Accounts payable and accrued expenses	55,973	163,251
Other	(20,193)	(27,533)
Net cash from continuing operating activities	343,424	235,674
Investing Activities:		
Purchase of equipment and improvements	(114,560)	(150,150)
Proceeds from sale-leaseback transactions	105,730	62,778
Dealership acquisitions net, including repayment of sellers floorplan notes payable of $42,959 and $114,255, respectively	(148,974)	(369,193)
Other	15,518	
Net cash from continuing investing activities	(142,286)	(456,565)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement	341,400	327,000
Repayments under U.S. credit agreement	(341,400)	(553,000)
Redemption 9 5/8% Senior Subordinated debt	(314,439)	
Issuance of convertible subordinated debt		375,000
Net borrowings (repayments) of other long-term debt	(78,646)	74,185
Net borrowings of floor plan notes payable non-trade	154,301	32,288
Payment of deferred financing costs		(12,630)

Proceeds from exercises of options, including excess tax benefit		2,517		17,992
Repurchase of common stock				(18,955)
Dividends		(19,898)		(18,626)
Net cash from continuing financing activities		(256,165)		223,254
Discontinued operations:				
Net cash from discontinued operating activities		3,708		970
Net cash from discontinued investing activities		40,085		15,870
Net cash from discontinued financing activities		22,917		(7,140)
Net cash from discontinued operations		66,710		9,700
Net change in cash and cash equivalents		11,683		12,063
Cash and cash equivalents, beginning of period		13,147		8,957
Cash and cash equivalents, end of period	$	24,830	$	21,020
Supplemental disclosures of cash flow information:				
Cash paid for:				
Interest	$	97,228	$	82,073
Income taxes		16,781		26,823
Seller financed debt		4,953		64,168

* See Note 1

See Notes to Consolidated Condensed Financial Statements

Table of Contents

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

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
	(Unaudited) (Dollars in thousands)						
Balances, January 1, 2007	94,468,013	$ 9	$ 768,794	$ 492,704	$ 79,379	$ (45,233)	$ 1,295,653
Adoption of FIN 48 (Note 1)				(4,430)			(4,430)
Restricted stock	347,205		4,132				4,132
Exercise of options, including tax benefit of $1,047	195,885		2,517				2,517
Dividends				(19,898)			(19,898)
Foreign currency translation					26,882		26,882
Other					567		567
Retirement of Treasury Stock			(45,233)			45,233	
Net income				98,337			98,337
Balances, September 30, 2007	95,011,103	$ 9	$ 730,210	$ 566,713	$ 106,828	$	$ 1,403,760

See Notes to Consolidated Condensed Financial Statements

Table of Contents

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

1. Interim Financial Statements

Basis of Presentation

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

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

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

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

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

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

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

Table of Contents

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

Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	$ 119,245	$ 236,526	$ 407,430	$ 716,865
Pre-tax income (loss)	1,654	(501)	813	(1,284)
Gain (loss) on disposal		(2,584)	1,189	(4,019)

	September 30, 2007	**December 31, 2006**
Inventories	$ 76,784	$ 108,006
Other assets	78,534	92,366
Total assets	$ 155,318	$ 200,372
Floor plan notes payable (trade and non-trade)	$ 56,888	$ 29,037
Other liabilities	16,073	23,176
Total Liabilities	$ 72,961	$ 52,213

Estimates

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

Table of Contents

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

Intangible Assets

The Company s principal intangible assets relate to its franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations. Intangible assets are amortized over their estimated useful lives. The Company believes the franchise value of its dealerships has an indefinite useful life based on the following facts:

- Automotive retailing is a mature industry and is based on franchise agreements with the vehicle manufacturers;
- There are no known changes or events that would alter the automotive retailing franchise environment;
- Certain franchise agreement terms are indefinite;
- Franchise agreements that have limited terms have historically been renewed without substantial cost; and
- The Company s history shows that manufacturers have not terminated franchise agreements.

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

	Goodwill	Franchise Value
Balance January 1, 2007	$ 1,259,437	$ 246,118
Additions during period	44,895	47,672
Foreign currency translation	17,268	5,393
Balance September 30, 2007	$ 1,321,600	$ 299,183

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

New Accounting Pronouncements

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

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

Table of Contents

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

2. Inventories

Inventories consisted of the following:

	September 30, 2007	December 31, 2006
New vehicles	$ 1,093,009	$ 1,077,743
Used vehicles	387,262	362,416
Parts, accessories and other	77,064	78,600
Total inventories	$ 1,557,335	$ 1,518,759

The Company receives non-refundable credits from certain vehicle manufacturers which are treated as a reduction of cost of sales when the vehicles are sold. Such credits amounted to $24,361 and $23,404 during the nine months ended September 30, 2007 and 2006, respectively.

3. Business Combinations

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

	September 30,	
	2007	2006
Accounts receivable	$ 11,908	$ 24,171
Inventory	42,905	166,924
Other current assets	455	20,268
Property and equipment	4,516	71,051
Goodwill	52,167	231,752
Franchise value	48,896	32,518
Other assets	3,430	21
Current liabilities	(13,344)	(160,078)
Long term liabilities	(1,959)	(17,434)
Cash used in dealership acquisitions	$ 148,974	$ 369,193

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	$ 3,405,987	$ 3,186,466	$ 10,009,116	$ 9,143,184
Income from continuing operations	42,410	37,631	99,232	102,599
Net income	43,400	35,340	100,171	98,893
Income from continuing operations per diluted common share	$ 0.45	$ 0.40	$ 1.05	$ 1.09

Earnings per diluted common share	$ 0.46	$ 0.37	$ 1.06	$ 1.05

Table of Contents

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

4. Floor Plan Notes Payable Trade and Non-trade

The Company finances the majority of its new and a portion of its used vehicle inventories under revolving floor plan arrangements with various lenders. In the U.S., the floor plan arrangements are due on demand; however, the Company is generally not required to make loan principal repayments prior to the sale of the financed vehicles. The Company typically makes monthly interest payments on the amount financed. Outside the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less and the Company is generally required to repay floor plan advances at the earlier of the sale of the financed vehicles or the stated maturity. All of the floor plan agreements grant a security interest in substantially all of the assets of the Company s dealership subsidiaries. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in defined benchmarks. The Company classifies floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-trade on its consolidated condensed balance sheets and classifies related cash flows as a financing activity on its consolidated condensed statements of cash flows.

5. Earnings Per Share

Basic earnings per share is computed using net income and weighted average shares of voting common stock outstanding. Diluted earnings per share is computed using net income and the weighted average shares of voting common stock outstanding, adjusted for the dilutive effect of stock options and restricted stock. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2007 and 2006 follows:

	Three Months Ended September		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average shares outstanding	94,244	93,754	94,037	93,257
Effect of stock options	156	276	210	465
Effect of restricted stock	214	258	265	363
Weighted average shares outstanding, including effect of dilutive securities	94,614	94,288	94,512	94,085

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

6. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2007	December 31, 2006
U.S. credit agreement	$	$
U.K. credit agreement	54,161	117,544
7.75% Senior Subordinated Notes due 2016	375,000	375,000
3.5% Senior Subordinated Convertible Notes due 2026	375,000	375,000
9.625% Senior Subordinated Notes due 2012		300,000
Other	3,482	14,507

Total long-term debt	807,643	1,182,051
Less: Current portion	(14,969)	(13,385)
Net long-term debt	$ 792,674	$ 1,168,666

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

U.S. Credit Agreement

The Company is party to a credit agreement with DaimlerChrysler Financial Services Americas LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to $250,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, and for an additional $10,000 of availability for letters of credit, through September 30, 2010. The revolving loans bear interest between defined LIBOR plus 2.50% and defined LIBOR plus 3.50%.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company s domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company s ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity, a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA), a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of September 30, 2007, the Company was in compliance with all covenants under the U.S. Credit Agreement.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to the Company s other material indebtedness. Substantially all of the Company s domestic assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. Credit Agreement. Outstanding letters of credit under the U.S. Credit Agreement amounted to $500 as of September 30, 2007. No other amounts were outstanding under this facility as of September 30, 2007.

U.K. Credit Agreement

The Company s subsidiaries in the U.K. (the U.K. Subsidiaries) are party to an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a five year multi-option credit agreement, a fixed rate credit agreement and a seasonally adjusted overdraft line of credit (collectively, the U.K. Credit Agreement) to be used to finance acquisitions, working capital, and general corporate purposes. The U.K. Credit Agreement provides for (1) up to £70,000 in revolving loans through August 31, 2011, which have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.65% and defined LIBOR plus 1.25%, (2) a £30,000 funded term loan which bears interest between 5.94% and 6.54% and is payable ratably in quarterly intervals through June 30, 2011, and (3) a seasonally adjusted overdraft line of credit for up to £30,000 that bears interest at the Bank of England Base Rate plus 1.00% and matures on August 31, 2011.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, the U.K. Subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. Credit Agreement, including: a ratio of earnings before interest and taxes plus rental payments to interest plus rental payments (as defined), a measurement of maximum capital expenditures, and a debt to EBITDA ratio (as defined). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of September 30, 2007, the Company was in compliance with all covenants under the U.K. Credit Agreement.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of the U.K. Subsidiaries. Substantially all of the U.K. Subsidiaries assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. Credit Agreement. As of September 30, 2007, outstanding loans under the U.K. Credit Agreement amounted to £26,471 ($54,161).

12

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

7.75% Senior Subordinated Notes

On December 7, 2006, the Company issued $375,000 aggregate principal amount of 7.75% Senior Subordinated Notes (the 7.75% Notes) due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under the Company s credit agreements and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all wholly-owned domestic subsidiaries on a senior subordinated basis. The Company can redeem all or some of the 7.75% Notes at its option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable make-whole premium, as defined. In addition, the Company may redeem up to 40% of the 7.75% Notes at specified redemption prices using the proceeds of certain equity offerings before December 15, 2009. Upon certain sales of assets or specific kinds of changes of control the Company is required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of September 30, 2007, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

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

Holders may convert based on a conversion rate of 42.2052 shares of common stock per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately $23.69 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period commencing after March 31, 2006, if the closing price of the common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

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

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

Table of Contents

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

On or after April 6, 2011, the Company may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date. Holders of the Convertible Notes may require the Company to purchase all or a portion of their Securities for cash on each of April 1, 2011, April 1, 2016 and April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date.

9.625% Senior Subordinated Notes

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

7. Stockholders Equity

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

Comprehensive income

Other comprehensive income includes changes in the fair value of interest rate swap agreements, foreign currency translation gains and losses, and available for sale securities valuation adjustments that have been excluded from net income and reflected in equity. Total comprehensive income is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 43,400	$ 33,730	$ 98,337	$ 94,378
Other comprehensive income				
Foreign currency translation	16,673	4,329	26,882	33,494
Other	100	(551)	567	1,690
Comprehensive income	$ 60,173	$ 37,508	$ 125,786	$ 129,562

8. Interest Rate Swaps

The Company is party to an interest rate swap agreement through January 2008 pursuant to which a notional $200,000 of its U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of LIBOR based U.S. floor plan borrowings. During the nine months ended September 30, 2007, the swap reduced the weighted average interest rate on floor plan borrowings by approximately 0.1%. As of September 30, 2007, the Company expects approximately $222 associated with the swap to be recognized as a reduction of interest expense over the next twelve months.

Table of Contents

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

9. Commitments and Contingent Liabilities

The Company is involved in litigation which may relate to issues with customers, employment related matters, class action claims, purported class action claims, and claims brought by governmental authorities. As of September 30, 2007, the Company is not party to any legal proceedings, including class action lawsuits, that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company s results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company s results of operations, financial condition or cash flows.

The Company is party to a joint venture agreement with respect to one of the Company s franchises pursuant to which the Company is required to repurchase its partner s interest in July 2008. The Company expects this payment to be approximately $4.7 million.

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

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

10. Consolidating Condensed Financial Information

The following tables include consolidating condensed financial information as of September 30, 2007 and December 31, 2006 and for the three and nine months ended September 30, 2007 and 2006 for Penske Automotive Group, Inc. (as the issuer of the Convertible Notes and the 7.75% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations or cash flows of these entities on a stand-alone basis.

CONSOLIDATING CONDENSED BALANCE SHEET
September 30, 2007

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Cash and cash equivalents	$ 24,830	$	$	$	$ 24,830
Accounts receivable, net	495,062	(203,483)	203,483	267,746	227,316
Inventories, net	1,557,335			803,455	753,880
Other current assets	97,205		7,257	38,949	50,999
Assets held for sale	155,318			142,084	13,234
Total current assets	2,329,750	(203,483)	210,740	1,252,234	1,070,259
Property and equipment, net	566,057		4,797	309,104	252,156
Intangible assets	1,620,783			1,017,221	603,562
Other assets	102,011	(1,189,794)	1,195,485	30,214	66,106
Total assets	$ 4,618,601	$ (1,393,277)	$ 1,411,022	$ 2,608,773	$ 1,992,083
Floor plan notes payable	$ 1,058,995	$	$	$ 468,613	$ 590,382
Floor plan notes payable non-trade	440,483			277,011	163,472
Accounts payable	264,545		5,685	89,378	169,482
Accrued expenses	290,003	(203,483)	1,577	126,153	365,756
Current portion of long-term debt	14,969			247	14,722
Liabilities held for sale	72,961			57,032	15,929
Total current liabilities	2,141,956	(203,483)	7,262	1,018,434	1,319,743
Long-term debt	792,674	(265,057)		752,846	304,885
Other long-term liabilities	280,211			236,706	43,505
Total liabilities	3,214,841	(468,540)	7,262	2,007,986	1,668,133
Total stockholders equity	1,403,760	(924,737)	1,403,760	600,787	323,950

Total liabilities and stockholders equity	$ 4,618,601	$ (1,393,277)	$ 1,411,022	$ 2,608,773	$ 1,992,083

Table of Contents

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

	Total Company	Eliminations	Penske Automotive Group, Inc. (In Thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 13,147	$	$	$ 2,691	$ 10,456
Accounts receivable, net	468,810	(200,621)	200,621	294,433	174,377
Inventories, net	1,518,759			785,668	733,091
Other current assets	71,492		9,426	23,422	38,644
Assets held for sale	200,372			185,425	14,947
Total current assets	2,272,580	(200,621)	210,047	1,291,639	971,515
Property and equipment, net	581,969		3,824	318,259	259,886
Intangible assets	1,505,555			941,630	563,925
Other assets	109,698	(1,078,710)	1,084,547	42,387	61,474
Total assets	$ 4,469,802	$ (1,279,331)	$ 1,298,418	$ 2,593,915	$ 1,856,800
Floor plan notes payable	$ 874,326	$	$	$ 416,068	$ 458,258
Floor plan notes payable non-trade	298,222	(35,000)		139,452	193,770
Accounts payable	300,764		2,738	102,772	195,254
Accrued expenses	214,200	(165,621)	27	63,046	316,748
Current portion of long-term debt	13,385			3,057	10,328
Liabilities held for sale	52,213			33,220	18,993
Total current liabilities	1,753,110	(200,621)	2,765	757,615	1,193,351
Long-term debt	1,168,666	(259,706)		1,050,931	377,441
Other long-term liabilities	252,373			237,014	15,359
Total liabilities	3,174,149	(460,327)	2,765	2,045,560	1,586,151
Total stockholders equity	1,295,653	(819,004)	1,295,653	548,355	270,649
Total liabilities and stockholders equity	$ 4,469,802	$ (1,279,331)	$ 1,298,418	$ 2,593,915	$ 1,856,800

17

Table of Contents

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

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Revenues	$ 3,405,987	$	$	$ 1,905,895	$ 1,500,092
Cost of sales	2,902,491			1,615,003	1,287,488
Gross profit	503,496			290,892	212,604
Selling, general, and administrative expenses	394,565		4,269	229,960	160,336
Depreciation and amortization	13,057		40	7,300	5,717
Operating income (loss)	95,874		(4,309)	53,632	46,551
Floor plan interest expense	(19,536)			(11,746)	(7,790)
Other interest expense	(12,454)			(6,341)	(6,113)
Equity in income of affiliates	1,475				1,475
Loss on debt redemption					
Equity in earnings of subsidiaries		(69,137)	69,137		
Income (loss) from continuing operations before income taxes and minority interests	65,359	(69,137)	64,828	35,545	34,123
Income taxes	(22,418)	23,908	(22,418)	(13,201)	(10,707)
Minority interests	(531)				(531)
Income (loss) from continuing operations	42,410	(45,229)	42,410	22,344	22,885
Income (loss) from discontinued operations, net of tax	990	(990)	990	1,074	(84)
Net income (loss)	$ 43,400	$ (46,219)	$ 43,400	$ 23,418	$ 22,801

18

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended September 30, 2006

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Revenues	$ 2,972,134	$	$	$ 1,806,896	$ 1,165,238
Cost of sales	2,528,571			1,530,321	998,250
Gross profit	443,563			276,575	166,988
Selling, general, and administrative expenses	350,648		4,189	219,003	127,456
Depreciation and amortization	11,388		365	6,440	4,583
Operating income (loss)	81,527		(4,554)	51,132	34,949
Floor plan interest expense	(15,647)			(10,677)	(4,970)
Other interest expense	(11,088)			(6,841)	(4,247)
Equity in earnings of affiliates	2,389				2,389
Equity in earnings of subsidiaries		(61,257)	61,257		
Income (loss) from continuing operations before income taxes and minority interests	57,181	(61,257)	56,703	33,614	28,121
Income taxes	(20,590)	22,244	(20,590)	(13,256)	(8,988)
Minority interests	(478)				(478)
Income (loss) from continuing operations	36,113	(39,013)	36,113	20,358	18,655
Income (loss) from discontinued operations, net of tax	(2,383)	2,383	(2,383)	(2,352)	(31)
Net income (loss)	$ 33,730	$ (36,630)	$ 33,730	$ 18,006	$ 18,624

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Nine Months Ended September 30, 2007

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Revenues	$ 9,873,947	$	$	$ 5,468,053	$ 4,405,894
Cost of sales	8,410,188			4,621,986	3,788,202
Gross profit	1,463,759			846,067	617,692
Selling, general, and administrative expenses	1,156,802		12,341	674,676	469,785
Depreciation and amortization	39,155		774	21,549	16,832
Operating income (loss)	267,802		(13,115)	149,842	131,075
Floor plan interest expense	(55,055)			(32,360)	(22,695)
Other interest expense	(44,230)			(25,146)	(19,084)
Equity in income of affiliates	3,183				3,183
Loss on debt redemption	(18,634)			(18,634)	
Equity in earnings of subsidiaries		(164,999)	164,999		
Income (loss) from continuing operations before income taxes and minority interests	153,066	(164,999)	151,884	73,702	92,479
Income taxes	(54,110)	58,931	(54,247)	(29,582)	(29,212)
Minority interests	(1,527)				(1,527)
Income (loss) from continuing operations	97,429	(106,068)	97,637	44,120	61,740
Income (loss) from discontinued operations, net of tax	908	(700)	700	611	297
Net income (loss)	$ 98,337	$ (106,768)	$ 98,337	$ 44,731	$ 62,037

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Nine Months Ended September 30, 2006

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In Thousands)		
Revenues	$ 8,344,600	$	$	$ 5,079,908	$ 3,264,692
Cost of sales	7,075,024			4,288,997	2,786,027
Gross profit	1,269,576			790,911	478,665
Selling, general, and administrative expenses	1,005,569		11,338	624,789	369,442
Depreciation and amortization	32,315		1,063	18,495	12,757
Operating income (loss)	231,692		(12,401)	147,627	96,466
Floor plan interest expense	(45,680)			(31,124)	(14,556)
Other interest expense	(34,471)			(21,147)	(13,324)
Equity in income of affiliates	5,507				5,507
Loss on Debt Redemption					
Equity in earnings of subsidiaries		(167,913)	167,913		
Income (loss) from continuing operations before income taxes and minority interests	157,048	(167,913)	155,512	95,356	74,093
Income taxes	(57,150)	61,707	(57,150)	(38,118)	(23,589)
Minority interests	(1,536)				(1,536)
Income (loss) from continuing operations	98,362	(106,206)	98,362	57,238	48,968
Income (loss) from discontinued operations, net of tax	(3,984)	3,984	(3,984)	(3,427)	(557)
Net income (loss)	$ 94,378	$ (102,222)	$ 94,378	$ 53,811	$ 48,411

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2007

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In Thousands)			
Net cash from continuing operating activities	$ 343,424	$ (7,017)	$ 208,717	$ 141,724
Investing activities:				
Purchase of property and equipment	(114,560)	(1,747)	(73,471)	(39,342)
Proceeds from sale leaseback transactions	105,730		62,432	43,298
Dealership acquisitions, net	(148,974)		(113,719)	(35,255)
Other	15,518	8,764		6,754
Net cash from continuing investing activities	(142,286)	7,017	(124,758)	(24,545)
Financing activities:				
Net borrowings (repayments) of long-term debt	(78,646)	17,381	(37,314)	(58,713)
Floor plan notes payable non-trade	154,301		182,119	(27,818)
Proceeds from exercises of options including excess tax benefit	2,517	2,517		
Redemption 9 5/8% Senior Subordinated Debt	(314,439)		(314,439)	
Distributions from (to) parent			14,923	(14,923)
Dividends	(19,898)	(19,898)		
Net cash from continuing financing activities	(256,165)		(154,711)	(101,454)
Net cash from discontinued operations	66,710		68,061	(1,351)
Net change in cash and cash equivalents	11,683		(2,691)	14,374
Cash and cash equivalents, beginning of period	13,147		2,691	10,456
Cash and cash equivalents, end of period	$ 24,830	$	$	$ 24,830

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2006

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In Thousands)			
Net cash from continuing operating activities	$ 235,674	$ 3,511	$ 172,480	$ 59,683
Investing activities:				
Purchase of property and equipment	(150,150)	(945)	(97,284)	(51,921)
Proceeds from sale leaseback transactions	62,778		26,447	36,331
Dealership acquisitions, net	(369,193)		(124,312)	(244,881)
Net cash from continuing investing activities	(456,565)	(945)	(195,149)	(260,471)
Financing activities:				
Net borrowings (repayments) of long-term debt	(151,815)	32,219	(347,925)	163,891
Issuance of Subordinated Debt	375,000		375,000	
Floor plan notes payable non-trade	32,288		(20,526)	52,814
Payment of deferred financing fees	(12,630)	(12,630)		
Proceeds from exercises of options including excess tax benefit	17,992	17,992		
Repurchase of common stock	(18,955)	(18,955)		
Distributions from (to) parent			2,688	(2,688)
Dividends	(18,626)	(18,626)		
Net cash from continuing financing activities	223,254		9,237	214,017
Net cash from discontinued operations	9,700		11,222	(1,522)
Net change in cash and cash equivalents	12,063	2,566	(2,210)	11,707
Cash and cash equivalents, beginning of period	8,957		2,210	6,747
Cash and cash equivalents, end of period	$ 21,020	$ 2,566	$	$ 18,454

Table of Contents

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors. See Forward Looking Statements. We have acquired a number of dealerships since inception. Our financial statements include the results of operations of acquired dealerships from the date of acquisition. This Management s Discussion and Analysis of Financial Condition and Results of Operations has been updated for the effects of revising our financial statements for entities which have been treated as discontinued operations through September 30, 2007 in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , revised to reflect our two-for-one split of our voting common stock in the form of a stock dividend, and restated for our adoption of Staff Accounting Bulletin (SAB) No. 108 Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements .

Overview

On July 2, 2007, we changed our corporate name from United Auto Group, Inc. to Penske Automotive Group, Inc. We are the second largest automotive retailer in the United States as measured by total revenues. As of September 30, 2007, we owned and operated 164 franchises in the United States and 147 franchises outside of the U.S., primarily in the United Kingdom. We offer a full range of vehicle brands. 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.

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.

We and Sirius Satellite Radio Inc. (Sirius) have agreed to jointly promote Sirius Satellite Radio service. Pursuant to the terms of our arrangement with Sirius, our dealerships in the U.S. endeavor to order a significant percentage of eligible vehicles with a factory installed Sirius radio. We and Sirius have also agreed to jointly market the Sirius service under a best efforts arrangement through January 4, 2009. Our costs relating to such marketing initiatives are expensed as incurred. As compensation for our efforts, we received warrants to purchase ten million shares of Sirius common stock at $2.392 per share in 2004 that are being earned ratably on an annual basis through January 2009. We earned warrants to purchase two million shares in each of 2004, 2005 and 2006. We measure the fair value of the warrants earned ratably on the date they are earned as there are no significant disincentives for non-performance. Since we can reasonably estimate the number of warrants that will be earned pursuant to the ratable schedule, the estimated fair value (based on current fair value) of these warrants is being recognized ratably during each annual period.

We also have received the right to earn additional warrants to purchase Sirius common stock at $2.392 per share based upon the sale of certain units of specified brands through December 31, 2007. We earned 166,400, 1,269,700 and 522,400 of these warrants during the nine months ended September 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Since we cannot reasonably estimate the number of warrants that will be earned subject to the sale of units, the fair value of these warrants is being recognized when they are earned.

The value of Sirius stock has been and is expected to be subject to significant fluctuations, which may result in variability in the amount we earn under this arrangement. The warrants may be cancelled upon the termination of our arrangement and we may not be able to achieve the performance targets outlined in the warrants.

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, and service and parts. Our gross profit generally varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as customer demand, general economic conditions, seasonality, weather and manufacturers advertising and incentives may impact the mix of our revenues, and therefore influence our gross profit margin.

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 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.

Floor plan interest expense relates to obligations incurred in connection with the acquisition of new and used vehicle inventories. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing.

The future success of our business will likely be dependent on, among other things, our ability to consummate and integrate acquisitions, our ability to increase sales of higher margin products, especially service and parts services, and our ability to realize returns on our significant capital investment in new and upgraded dealerships. See Forward-Looking Statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing judgments. Such judgments influence the assets, liabilities, revenues and expenses recognized in our financial statements. Management, on an ongoing basis, reviews these estimates and assumptions. Management may determine that modifications in assumptions and estimates are required, which may result in a material change in our results of operations or financial position.

The following are the accounting policies applied in the preparation of our financial statements that management believes are most dependent upon the use of estimates and assumptions.

Revenue Recognition

Vehicle, Parts and Service Sales

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is performed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursement of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under various manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. During the nine months ended September 30, 2007 and 2006, we earned $264.7 million and $206.0 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $259.1 million and $200.3 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 credit contracts to various financial institutions on a non-recourse basis 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. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we received may be charged back to us based on the terms of the contracts. The revenue we record relating to these transactions is net of an estimate of the amount of chargebacks we will be required to pay. Our estimate is based upon our historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products. Aggregate reserves relating to chargeback activity were $19.1 million and $16.9 million as of September 30, 2007 and December 31, 2006, respectively. Changes in reserve estimates relate primarily to an increase in the amount of revenues subject to chargeback.

Table of Contents

Intangible Assets

Our principal intangible assets relate to our franchise agreements with vehicle manufacturers, which represent the estimated value of franchises acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in connection with business combinations. Intangible assets are required to be amortized over their estimated useful lives. We believe the franchise values of our dealerships have an indefinite useful life based on the following facts:

Automotive retailing is a mature industry and is based on franchise agreements with the vehicle manufacturers;

There are no known changes or events that would alter the automotive retailing franchise environment;

Certain franchise agreement terms are indefinite;

Franchise agreements that have limited terms have historically been renewed without substantial cost; and

Our history shows that manufacturers have not terminated franchise agreements.

Impairment Testing

Franchise value impairment is assessed as of October 1 every year through a comparison of the carrying amounts of our franchises with their estimated fair values. We also evaluate our franchises in connection with the annual impairment testing to determine whether events and circumstances continue to support our assessment that the franchise has an indefinite life.

Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. If an indication of impairment exists, the impairment is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and an impairment loss may be recognized equal to that excess.

The fair values of franchise value and goodwill are determined using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, franchise profit margins, residual values and our cost of capital. If future events and circumstances cause significant changes in the assumptions underlying our analysis which results in a reduction of our estimates of fair value, we may incur an impairment charge.

Investments

Investments include marketable securities and investments in businesses accounted for under the equity method and the cost method. Investments held by us are typically classified as available for sale and are stated at fair value on our balance sheet with unrealized gains and losses included in other comprehensive income, a separate component of stockholders equity. Declines in investment values that are deemed to be other than temporary would be an indicator of impairment and may result in an impairment charge reducing the investments carrying value to fair value. 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 venture s income each period.

The net book value of our investments was $75.8 million and $69.5 million as of September 30, 2007 and December 31, 2006, 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 was identified, management would estimate the fair value of the investment using a discounted cash flow approach, which would include assumptions relating to revenue and profitability growth, profit margins, residual values and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments carrying value to fair value. No impairments were recognized during the periods presented.

Table of Contents

Self-Insurance

We retain risk relating to certain of our general liability insurance, workers compensation insurance, auto physical damage insurance, property insurance and employee medical benefits in the United States. As a result, we are likely to be responsible for a majority of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum exposure limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined exposure 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 $19.2 million and $13.4 million as of September 30, 2007 and December 31, 2006, respectively. Changes in the reserve estimate during 2007 relate primarily to changes in loss experience in our employee medical, general liability and workers compensation programs.

Income Taxes

Tax regulations may require items to be included in our tax return at different times than the items are reflected in our financial statements. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are timing differences, such as the timing of depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax return that have not yet been recognized as expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit. A valuation allowance of $3.5 million has been recorded relating to state net operating loss and credit carryforwards in the United States based on our determination that it is more likely than not that they will not be utilized.

Classification of Franchises in Continuing and Discontinued Operations

We classify the results of our operations in our consolidated financial statements based on the provisions of SFAS No. 144. Many of these provisions involve judgment in determining whether a franchise will be reported within continuing or discontinued operations. Such judgments include whether a franchise will be sold or terminated, the period required to complete the disposition, and the likelihood of changes to a plan for sale. If in future periods we determine that a franchise should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, our consolidated financial statements for prior periods would be revised to reflect such reclassification.

New Accounting Pronouncements

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

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

Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a same store basis. Dealership results are only included in same store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2005, the results of the acquired entity would be included in annual same store comparisons beginning with the year ended December 31, 2007 and in quarterly same store comparisons beginning with the quarter ended June 30, 2006.

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006 (dollars in millions, except per unit amounts)

Total Retail Data

			2007 vs. 2006	
	2007	2006	Change	% Change
Total retail unit sales	78,919	73,904	5,015	6.8%
Total same store retail unit sales	71,378	70,540	838	1.2%
Total retail sales revenue	$ 3,127.9	$ 2,736.3	$ 391.6	14.3%
Total same store retail sales revenue	$ 2,824.2	$ 2,603.8	$ 220.4	8.5%
Total retail gross profit	$ 503.0	$ 442.7	$ 60.3	13.6%
Total same store retail gross profit	$ 457.8	$ 426.8	$ 31.0	7.3%
Total retail gross margin	16.1%	16.2%	(0.1)%	(0.6%)
Total same store retail gross margin	16.2%	16.4%	(0.2)%	(1.2%)

Units

Retail data includes retail new vehicle, retail used vehicle, finance and insurance and service and parts transactions. Retail unit sales of vehicles increased by 5,015 units, or 6.8%, from 2006 to 2007. The increase is due to an 838, or 1.2%, increase in same store retail unit sales, coupled with a 4,177 unit increase from net dealership acquisitions during the period. The increase in same store retail unit sales in 2007 was driven primarily by increases in our premium brands in the U.K.

Revenues

Retail sales revenue increased $391.6 million, or 14.3%, from 2006 to 2007. The increase is due to a $220.4 million, or 8.5%, increase in same store revenues, coupled with a $171.2 million increase from net dealership acquisitions during the period. The same store revenue increase is due to (1) a $2,412, or 7.3%, increase in average new vehicle revenue per unit, which increased revenue by $116.2 million, (2) a $2,259, or 8.0%, increase in average used vehicle revenue per unit, which increased revenue by $50.5 million, (3) an $85, or 9.2%, increase in average finance and insurance revenue per unit, which increased revenue by $6.0 million, (4) a $20.9 million, or 6.8%, increase in service and parts revenues, and (5) the 1.2% increase in retail unit sales which increased revenue by $26.8 million.

Gross Profit

Retail gross profit increased $60.3 million, or 13.6%, from 2006 to 2007. The increase is due to a $31.0 million, or 7.3%, increase in same store retail gross profit, coupled with a $29.3 million increase from net dealership acquisitions during the period. The same store retail gross profit increase is due to (1) a $172, or 6.1%, increase in average gross profit per new vehicle retailed, which increased retail gross profit by $8.3 million, (2) a $55, or 2.3%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $1.2 million, (3) the $85, or 9.2%, increase in average finance and insurance revenue per unit, which increased retail gross profit by $6.0 million, (4) a $12.5 million, or 7.3%, increase in service and parts gross profit, and (5) the 1.2% increase in retail unit sales, which increased retail gross profit by $3.0 million.

Table of Contents

New Vehicle Data

	2007	2006	2007 vs. 2006 Change	2007 vs. 2006 % Change
New retail unit sales	53,222	50,000	3,222	6.4%
Same store new retail unit sales	48,246	48,183	63	0.1%
New retail sales revenue	$ 1,896.5	$ 1,670.8	$ 225.7	13.5%
Same store new retail sales revenue	$ 1,718.4	$ 1,599.9	$ 118.5	7.4%
New retail sales revenue per unit	$ 35,633	$ 33,416	$ 2,217	6.6%
Same store new retail sales revenue per unit	$ 35,617	$ 33,205	$ 2,412	7.3%
Gross profit new	$ 160.7	$ 143.2	$ 17.5	12.2%
Same store gross profit new	$ 145.4	$ 136.9	$ 8.5	6.2%
Average gross profit per new vehicle retailed	$ 3,019	$ 2,865	$ 154	5.4%
Same store average gross profit per new vehicle retailed	$ 3,013	$ 2,841	$ 172	6.1%
Gross margin % new	8.5%	8.6%	(0.1%)	(1.2%)
Same store gross margin % new	8.5%	8.6%	(0.1%)	(1.2%)

Units

Retail unit sales of new vehicles increased 3,222 units, or 6.4%, from 2006 to 2007. The increase is due a 3,159 unit increase from net dealership acquisitions, coupled with a 63 unit or 0.1% increase in same store retail unit sales during the period.

Revenues

New vehicle retail sales revenue increased $225.7 million, or 13.5%, from 2006 to 2007. The increase is due to a $118.5 million, or 7.4%, increase in same store revenues, coupled with a $107.2 million increase from net dealership acquisitions during the period. The same store revenue increase is due primarily to a $2,412, or 7.3%, increase in comparative average selling prices per unit, which increased revenue by $116.2 million.

Gross Profit

Retail gross profit from new vehicle sales increased $17.5 million, or 12.2%, from 2006 to 2007. The increase is due to an $8.5 million, or 6.2%, increase in same store gross profit, coupled with a $9.0 million increase from net dealership acquisitions during the period. The same store increase is due primarily to a $172, or 6.1%, increase in average gross profit per new vehicle retailed, which increased gross profit by $8.3 million.

Table of Contents

Used Vehicle Data

	2007	2006	2007 vs. 2006 Change	2007 vs. 2006 % Change
Used retail unit sales	25,697	23,904	1,793	7.5%
Same store used retail unit sales	23,132	22,357	775	3.5%
Used retail sales revenue	$ 792.8	$ 680.2	$ 112.6	16.6%
Same store used retail sales revenue	$ 704.6	$ 630.5	$ 74.1	11.8%
Used retail sales revenue per unit	$ 30,852	$ 28,457	$ 2,395	8.4%
Same store used retail sales revenue per unit	$ 30,461	$ 28,202	$ 2,259	8.0%
Gross profit used	$ 63.5	$ 56.4	$ 7.1	12.6%
Same store gross profit used	$ 57.3	$ 54.2	$ 3.1	5.7%
Average gross profit per used vehicle retailed	$ 2,472	$ 2,358	$ 114	4.8%
Same store average gross profit per used vehicle retailed	$ 2,479	$ 2,424	$ 55	2.3%
Gross margin % used	8.0%	8.3%	(0.3%)	(3.6%)
Same store gross margin % used	8.1%	8.6%	(0.5%)	(5.8%)

Units

Retail unit sales of used vehicles increased 1,793 units, or 7.5%, from 2006 to 2007. The increase is due to a 775 unit, or 3.5%, increase in same store retail unit sales, coupled with a 1,018 unit increase from net dealership acquisitions during the period. The same store increase was due primarily to unit sales increases in our premium brand stores in the U.S. and U.K. and in our volume foreign brand stores in the U.S.

Revenues

Used vehicle retail sales revenue increased $112.6 million, or 16.6%, from 2006 to 2007. The increase is due to a $74.1 million, or 11.8%, increase in same store revenues, coupled with a $38.5 million increase from net dealership acquisitions during the period. The same store revenue increase is due primarily to the $2,259, or 8.0%, increase in comparative average selling prices per vehicle, which increased revenue by $50.5 million, coupled with a 3.5% increase in retail unit sales, which increased revenue by $23.6 million.

Gross Profit

Retail gross profit from used vehicle sales increased $7.1 million, or 12.6%, from 2006 to 2007. The increase is due to a $3.1 million, or 5.7%, increase in same store gross profit, coupled with a $4.0 million increase from net dealership acquisitions during the period. The increase in same store gross profit is due primarily to the 3.5% increase in used retail unit sales, which increased gross profit by $1.9 million, coupled with a $55, or 2.3%, increase in average gross profit per used vehicle retailed which increased retail gross profit by $1.2 million.

Finance and Insurance Data

	2007	2006	2007 vs. 2006 Change	2007 vs. 2006 % Change
Finance and insurance revenue	$ 79.0	$ 66.8	$ 12.2	18.3%
Same store finance and insurance revenue	$ 71.7	$ 64.8	$ 6.9	10.6%
Finance and insurance revenue per unit	$ 1,001	$ 903	$ 98	10.9%
Same store finance and insurance revenue per unit	$ 1,004	$ 919	$ 85	9.2%

Finance and insurance revenue increased $12.2 million, or 18.3%, from 2006 to 2007. The increase is due to a $6.9 million, or 10.6%, increase in same store revenues, coupled with a $5.3 million increase from net dealership acquisitions during the period. The same store revenue increase is due primarily to the $85, or 9.2%, increase in comparative average finance and insurance revenue per unit, which increased revenue by $6.0 million, coupled with the 1.2% increase in retail unit sales which increased revenue by $0.9 million.

Table of Contents

Service and Parts Data

					2007 vs. 2006			
		2007		2006		Change	% Change
Service and parts revenue	$	359.6	$	318.5	$	41.1	12.9%
Same store service and parts revenue	$	329.5	$	308.6	$	20.9	6.8%
Gross profit	$	199.8	$	176.3	$	23.5	13.3%
Same store gross profit	$	183.4	$	170.9	$	12.5	7.3%
Gross margin		55.6%		55.4%		0.2%	0.4%
Same store gross margin		55.6%		55.4%		0.2%	0.4%

Revenues

Service and parts revenue increased $41.1 million, or 12.9%, from 2006 to 2007. The increase is due to a $20.9 million, or 6.8%, increase in same store revenues, coupled with a $20.2 million increase from net dealership acquisitions during the period. We believe that our service and parts business is being positively impacted by the growth in total retail unit sales at our dealerships in recent years and capacity increases in our service and parts operations resulting from our ongoing facility improvement and expansion programs.

Gross Profit

Service and parts gross profit increased $23.5 million, or 13.3%, from 2006 to 2007. The increase is due to a $12.5 million, or 7.3%, increase in same store gross profit, coupled with an $11.0 million increase from net dealership acquisitions during the period. The same store gross profit increase is due to the $20.9 million, or 6.8%, increase in same store revenues, which increased gross profit by $11.7 million, and a 20 basis point increase in gross margin, which increased gross profit by $0.8 million.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) increased $43.9 million, or 12.5%, from $350.7 million to $394.6 million. The aggregate increase is primarily due to a $20.5 million, or 6.1%, increase in same store SG&A, coupled with a $23.4 million increase from net dealership acquisitions during the period. The increase in same store SG&A is due in large part to a net increase in variable selling expenses, including increases in variable compensation as a result of the 7.3% increase in same store retail gross profit over the prior year, coupled with increased rent and other costs relating to our ongoing facility improvement and expansion programs. SG&A expenses decreased as a percentage of total revenue from 11.8% to 11.6% and decreased as a percentage of gross profit from 79.1% to 78.4%.

Depreciation and Amortization

Depreciation and amortization increased $1.7 million, or 14.7%, from $11.4 million to $13.1 million. The increase is due to a $1.5 million, or 13.0%, increase in same store depreciation and amortization, coupled with a $0.2 million increase from net dealership acquisitions during the period. The same store increase is due in large part to our ongoing facility improvement and expansion program.

Floor Plan Interest Expense

Floor plan interest expense increased $3.9 million, or 24.9%, from $15.6 million to $19.5 million. The increase is due to a $2.6 million, or 16.7%, increase in same store floor plan interest expense, coupled with a $1.3 million increase from net dealership acquisitions during the period. The same store increase is due in large part to increases in the underlying variable rates of our revolving floor plan arrangements, somewhat offset by decreases in our average amounts outstanding.

Other Interest Expense

Other interest expense increased $1.4 million, or 12.3%, from $11.1 million to $12.5 million. The increase is due primarily to an increase in our average total outstanding indebtedness in 2007 versus 2006, offset in part by a decrease in our weighted average interest rate.

Income Taxes

Income taxes increased $1.8 million, or 8.9%, from $20.6 million to $22.4 million. The increase from 2006 to 2007 is due to the increase in our pre-tax income versus the prior year, somewhat offset by a decrease in our overall effective income tax rate.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006 (dollars in millions, except per unit amounts)

Our results for the nine months ended September 30, 2007 include a charge 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.

Total Retail Data

			2007 vs. 2006	
	2007	2006	Change	% Change
Total retail unit sales	227,633	205,393	22,240	10.8%
Total same store retail unit sales	201,051	196,125	4,926	2.5%
Total retail sales revenue	$ 9,058.9	$ 7,648.1	$ 1,410.8	18.4%
Total same store retail sales revenue	$ 7,899.0	$ 7,255.9	$ 643.1	8.9%
Total retail gross profit	$ 1,459.3	$ 1,264.5	$ 194.8	15.4%
Total same store retail gross profit	$ 1,290.9	$ 1,207.2	$ 83.7	6.9%
Total retail gross margin	16.1%	16.5%	(0.4)%	(2.4%)
Total same store retail gross margin	16.3%	16.6%	(0.3)%	(1.8%)

Units

Retail data includes retail new vehicle, retail used vehicle, finance and insurance and service and parts transactions. Retail unit sales of vehicles increased by 22,240 units, or 10.8%, from 2006 to 2007. The increase is due to a 4,926 unit, or 2.5%, increase in same store retail unit sales, coupled with a 17,314 unit increase from net dealership acquisitions during the period. The increase in same store retail unit sales in 2007 was driven primarily by used vehicle increases in our premium brands in both the U.K. and U.S and volume foreign brands in the U.S.

Revenues

Retail sales revenue increased $1,410.8 million, or 18.4%, from 2006 to 2007. The increase is due to a $643.1 million, or 8.9%, increase in same store revenues, coupled with a $767.7 million increase from net dealership acquisitions during the period. The same store revenue increase is due to (1) a $2,112, or 6.3%, increase in average new vehicle revenue per unit, which increased revenue by $283.5 million, (2) a $2,056, or 7.4%, increase in average used vehicle revenue per unit, which increased revenue by $127.2 million, (3) a $58, or 6.2%, increase in average finance and insurance revenue per unit, which increased revenue by $11.3 million, (4) a $66.6 million, or 7.6%, increase in service and parts revenues, and (5) the 2.5% increase in retail unit sales which increased revenue by $154.5 million.

Gross Profit

Retail gross profit increased $194.8 million, or 15.4%, from 2006 to 2007. The increase is due to a $83.7 million, or 6.9%, increase in same store retail gross profit, coupled with a $111.1 million increase from net dealership acquisitions during the period. The same store retail gross profit increase is due to (1) an $68, or 2.3%, increase in average gross profit per new vehicle retailed, which increased retail gross profit by $9.1 million, (2) a $30, or 1.2%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $1.9 million (3) the $58, or 6.2%, increase in average finance and insurance revenue per unit, which increased retail gross profit by $11.3 million, (4) a $44.1 million, or 9.1%, increase in service and parts gross profit, and (5) the 2.5% increase in retail unit sales, which increased retail gross profit by $17.3 million.

32

Table of Contents

New Vehicle Data

			2007 vs. 2006	
	2007	2006	Change	% Change
New retail unit sales	149,667	139,355	10,312	7.4%
Same store new retail unit sales	134,642	134,245	397	0.3%
New retail sales revenue	$ 5,361.6	$ 4,676.0	$ 685.6	14.7%
Same store new retail sales revenue	$ 4,769.0	$ 4,471.4	$ 297.6	6.7%
New retail sales revenue per unit	$ 35,824	$ 33,555	$ 2,269	6.8%
Same store new retail sales revenue per unit	$ 35,420	$ 33,308	$ 2,112	6.3%
Gross profit new	$ 451.1	$ 407.5	$ 43.6	10.7%
Same store gross profit new	$ 399.1	$ 388.8	$ 10.3	2.6%
Average gross profit per new vehicle retailed	$ 3,014	$ 2,924	$ 90	3.1%
Same store average gross profit per new vehicle retailed	$ 2,964	$ 2,896	$ 68	2.3%
Gross margin % new	8.4%	8.7%	(0.3%)	(3.4%)
Same store gross margin % new	8.4%	8.7%	(0.3%)	(3.4%)

Units

Retail unit sales of new vehicles increased 10,312 units, or 7.4%, from 2006 to 2007. The increase is due to a 397 unit, or 0.3%, increase in same store retail unit sales, coupled with a 9,915 unit increase from net dealership acquisitions during the period. The same store increase was due primarily to increases in our premium brands in the U.K.

Revenues

New vehicle retail sales revenue increased $685.6 million, or 14.7%, from 2006 to 2007. The increase is due to a $297.6 million, or 6.7%, increase in same store revenues, coupled with a $388.0 million increase from net dealership acquisitions during the period. The same store revenue increase is due to the 0.3% increase in retail unit sales, which increased revenue by $14.1 million, coupled with a $2,112, or 6.3%, increase in comparative average selling prices per unit, which increased revenue by $283.5 million.

Gross Profit

Retail gross profit from new vehicle sales increased $43.6 million, or 10.7%, from 2006 to 2007. The increase is due to a $10.3 million, or 2.6%, increase in same store gross profit, coupled with a $33.3 million increase from net dealership acquisitions during the period. The same store increase is due to the 0.3% increase in new retail unit sales, which increased gross profit by $1.2 million, coupled with a $68, or 2.3%, increase in average gross profit per new vehicle retailed, which increased gross profit by $9.1 million.

Table of Contents

Used Vehicle Data

	2007	2006	2007 vs. 2006 Change	2007 vs. 2006 % Change
Used retail unit sales	77,966	66,038	11,928	18.1%
Same store used retail unit sales	66,409	61,880	4,529	7.3%
Used retail sales revenue	$ 2,405.8	$ 1,864.1	$ 541.7	29.1%
Same store used retail sales revenue	$ 1,986.0	$ 1,723.4	$ 262.6	15.2%
Used retail sales revenue per unit	$ 30,857	$ 28,227	$ 2,630	9.3%
Same store used retail sales revenue per unit	$ 29,906	$ 27,850	$ 2,056	7.4%
Gross profit used	$ 189.6	$ 160.4	$ 29.2	18.2%
Same store gross profit used	$ 164.0	$ 151.0	$ 13.0	8.6%
Average gross profit per used vehicle retailed	$ 2,431	$ 2,429	$ 2	0.1%
Same store average gross profit per used vehicle retailed	$ 2,470	$ 2,440	$ 30	1.2%
Gross margin % used	7.9%	8.6%	(0.7%)	(8.1%)
Same store gross margin % used	8.3%	8.8%	(0.5%)	(5.7%)

Units

Retail unit sales of used vehicles increased 11,928 units, or 18.1%, from 2006 to 2007. The increase is due to a 4,529 unit, or 7.3%, increase in same store retail unit sales, coupled with a 7,399 unit increase from net dealership acquisitions during the period. The same store increase was due primarily to increases in premium brands in the U.S. and U.K. and volume foreign brands in the U.S.

Revenues

Used vehicle retail sales revenue increased $541.7 million, or 29.1%, from 2006 to 2007. The increase is due to a $262.6 million, or 15.2%, increase in same store revenues, coupled with a $279.1 million increase from net dealership acquisitions during the period. The same store revenue increase is due primarily to the 7.3% increase in retail unit sales, which increased revenue by $135.4 million, coupled with a $2,056, or 7.4%, increase in comparative average selling prices per vehicle, which increased revenue by $127.2 million.

Gross Profit

Retail gross profit from used vehicle sales increased $29.2 million, or 18.2%, from 2006 to 2007. The increase is due to a $13.0 million, or 8.6%, increase in same store gross profit, coupled with a $16.2 million increase from net dealership acquisitions during the period. The increase in same store gross profit is due primarily to the 7.3% increase in used retail unit sales, which increased gross profit by $11.1 million, coupled with a $30, or 1.2%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $1.9 million.

Finance and Insurance Data

	2007	2006	2007 vs. 2006 Change	2007 vs. 2006 % Change
Finance and insurance revenue	$ 222.9	$ 189.9	$ 33.0	17.4%
Same store finance and insurance revenue	$ 199.6	$ 183.4	$ 16.2	8.8%
Finance and insurance revenue per unit	$ 979	$ 924	$ 55	6.0%
Same store finance and insurance revenue per unit	$ 993	$ 935	$ 58	6.2%

Finance and insurance revenue increased $33.0 million, or 17.4%, from 2006 to 2007. The increase is due to a $16.2 million, or 8.8%, increase in same store revenues, coupled with a $16.8 million increase from net dealership acquisitions during the period. The same store revenue increase is due primarily to the 2.5% increase in retail unit sales, which increased revenue by $4.9 million, coupled with a $58, or 6.2%, increase in comparative average finance and insurance revenue per unit, which increased revenue by $11.3 million.

Table of Contents

Service and Parts Data

	2007	2006	2007 vs. 2006 Change	% Change
Service and parts revenue	$ 1,068.6	$ 918.1	$ 150.5	16.4%
Same store service and parts revenue	$ 944.3	$ 877.7	$ 66.6	7.6%
Gross profit	$ 595.8	$ 506.7	$ 89.1	17.6%
Same store gross profit	$ 528.1	$ 484.0	$ 44.1	9.1%
Gross margin	55.8%	55.2%	0.6%	1.1%
Same store gross margin	55.9%	55.1%	0.8%	1.5%

Revenues

Service and parts revenue increased $150.5 million, or 16.4%, from 2006 to 2007. The increase is due to a $66.6 million, or 7.6%, increase in same store revenues, coupled with an $83.9 million increase from net dealership acquisitions during the period. We believe that our service and parts business is being positively impacted by the growth in total retail unit sales at our dealerships in recent years and capacity increases in our service and parts operations resulting from our ongoing facility improvement and expansion programs.

Gross Profit

Service and parts gross profit increased $89.1 million, or 17.6%, from 2006 to 2007. The increase is due to a $44.1 million, or 9.1%, increase in same store gross profit, coupled with a $45.0 million increase from net dealership acquisitions during the period. The same store gross profit increase is due to the $66.6 million, or 7.6%, increase in same store revenues, which increased gross profit by $37.2 million, and an 80 basis point increase in gross margin, which increased gross profit by $6.9 million.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) increased $151.2 million, or 15.0%, from $1,005.6 million to $1,156.8 million. The aggregate increase is primarily due to a $62.5 million, or 6.5%, increase in same store SG&A, coupled with an $88.7 million increase from net dealership acquisitions during the period. The increase in same store SG&A is due in large part to a net increase in variable selling expenses, including increases in variable compensation as a result of the 6.9% increase in same store retail gross profit over the prior year, coupled with increased rent and other costs relating to our ongoing facility improvement and expansion programs. SG&A expenses decreased as a percentage of total revenue from 12.1% to 11.7% and as a percentage of gross profit from 79.2% to 79.0%.

Depreciation and Amortization

Depreciation and amortization increased $6.9 million, or 21.2%, from $32.3 million to $39.2 million. The increase is due to a $4.5 million, or 14.6%, increase in same store depreciation and amortization, coupled with a $2.4 million increase from net dealership acquisitions during the period. The same store increase is due in large part to our ongoing facility improvement and expansion program.

Floor Plan Interest Expense

Floor plan interest expense increased $9.4 million, or 20.5%, from $45.7 million to $55.1 million. The increase is due to a $4.2 million, or 9.5%, increase in same store floor plan interest expense, coupled with a $5.2 million increase from net dealership acquisitions during the period. The same store increase is due in large part to increases in the underlying variable rates of our revolving floor plan arrangements, somewhat offset by decreases in our average amounts outstanding.

Other Interest Expense

Other interest expense increased $9.7 million, or 28.3%, from $34.5 million to $44.2 million. The increase is due primarily to an increase in our average total outstanding indebtedness in 2007 versus 2006, offset in part by a decrease in our weighted average interest rate.

In March 2007, we redeemed our outstanding $300.0 million 9.625% Senior Subordinated Notes due 2012. We incurred an $18.6 million pretax charge in connection with the redemption, consisting of the $14.4 million redemption premium and the write-off of $4.2 million of unamortized deferred financing costs.

Income Taxes

Income taxes decreased $3.1 million, or 5.3%, from $57.2 million to $54.1 million. The decrease from 2006 to 2007 is due primarily to the decrease in our pre-tax income versus the prior year, coupled with a reduction in our overall effective income tax rate.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new dealerships, the improvement and expansion of existing facilities, the construction of new facilities and dividends. 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 or the issuance of equity securities. As of September 30, 2007, we had working capital of $187.8 million, including $24.8 million of cash available to fund our operations and capital commitments. In addition, we had $250.0 million and £70 million ($143.2 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, each of which are discussed below.

We paid a dividend of six cents per share on March 1, 2006 and dividends of seven cents per share on June 1, 2006, September 1, 2006, December 1, 2006, March 1, 2007, June 1, 2007 and September 4, 2007. We have also declared a dividend of $0.09 cents per share payable on December 3, 2007 to shareholders of record on November 12, 2007. 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.

We have expanded primarily through organic growth and through the acquisition of automotive dealerships. In addition, we were named as the exclusive distributor of smart fortwo vehicles in the United States 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 or other expansion opportunities, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional bank borrowing which sources of funds may not necessarily be available on terms acceptable to us, if at all.

Inventory Financing

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders. In the U.S., the floor plan arrangements are due on demand; however, we are generally not required to make loan principal repayments prior to the sale of the vehicles financed. We typically make monthly interest payments on the amount financed. In the U.K., substantially all of our floor plan arrangements are payable on demand or have an original maturity of 90 days or less and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles financed or the stated maturity. The floor plan agreements grant a security interest in substantially all of the assets of our dealership subsidiaries. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in defined benchmarks. We receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold.

U.S. Credit Agreement

We are party to a credit agreement with DaimlerChrysler Financial Services Americas LLC and Toyota Motor Credit Corporation, as amended, which provides for up to $250.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and for other general corporate purposes, and for an additional $10.0 million of availability for letters of credit, through September 30, 2010. The revolving loans bear interest between defined LIBOR plus 2.50% and defined LIBOR plus 3.50%.

The U.S. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. credit agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity, a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA), a ratio of domestic debt to domestic EBITDA, and a measurement of stockholders equity. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of September 30, 2007, we were in compliance with all covenants under the U.S. credit agreement, and we believe we will remain in compliance with such covenants for the foreseeable future. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.S.

The U.S. credit agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.S. credit agreement. Outstanding letters of credit under the U.S. credit agreement amounted to $0.5 million as of September 30, 2007. No other amounts were outstanding under the U.S. credit facility as of September 30, 2007.

U.K. Credit Agreement

Our subsidiaries in the U.K. are party to an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a five year multi-option credit agreement, a fixed rate credit agreement and a seasonally adjusted overdraft line of credit to be used to finance acquisitions, working capital, and general corporate purposes. The U.K. credit agreement provides for (1) up to £70.0 million in revolving loans through August 31, 2011, which have an original maturity of 90 days or less and bear interest between defined LIBOR plus 0.65% and defined LIBOR plus 1.25%, (2) a £30.0 million funded term loan which bears interest between 5.94% and 6.54% and is payable ratably in quarterly intervals through June 30, 2011, and (3) a seasonally adjusted overdraft line of credit for up to £30.0 million that bears interest at the Bank of England Base Rate plus 1.00% and matures on August 31, 2011.

The U.K. credit agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the U.K. Subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. credit agreement, including: a ratio of earnings before interest and taxes plus rental payments to interest plus rental payments (as defined), a measurement of maximum capital expenditures, and a debt to EBITDA ratio (as defined). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of September 30, 2007, we were in compliance with all covenants under the U.K. credit agreement, and we believe we will remain in compliance with such covenants for the foreseeable future. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of the U.K. subsidiaries. Substantially all of our U.K. subsidiaries assets not pledged as security under floor plan arrangements are subject to security interests granted to lenders under the U.K. credit agreement. As of September 30, 2007, outstanding loans under the U.K. credit agreement amounted to £26.4 million ($54.2 million).

7.75% Senior Subordinated Notes

On December 7, 2006 we issued $375.0 million aggregate principal amount of 7.75% Senior Subordinated Notes (the 7.75% Notes) due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under our credit agreements and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all wholly-owned domestic subsidiaries on a senior subordinated basis. We can redeem all or some of the 7.75% Notes at our option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable make-whole premium, as defined. In addition, we may redeem up to 40% of the 7.75% Notes at specified redemption prices using the proceeds of certain equity offerings before December 15, 2009. Upon certain sales of assets or specific kinds of changes of control we are required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of September 30, 2007, we were in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

On January 31, 2006, we issued $375.0 million aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes). The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by the Company. The Convertible Notes are unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by substantially all of our wholly owned domestic subsidiaries. The Convertible Notes also contain customary negative covenants and events of default. As of September 30, 2007, we were in compliance with all negative covenants and there were no events of default.

Holders may convert based on a conversion rate of 42.2052 shares of our common stock per $1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately $23.69 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period commencing after March 31, 2006, if the closing price of our common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of our common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

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

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

On or after April 6, 2011, we may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date. Holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2011, April 1, 2016 and April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date.

9.625% Senior Subordinated Notes

In March 2007, we redeemed our outstanding $300.0 million aggregate principal amount of 9.625% Senior Subordinated Notes due 2012 (the 9.625% Notes). The 9.625% Notes were unsecured senior subordinated notes and were subordinate to all existing senior debt, including debt under our credit agreements and floor plan indebtedness. We incurred an $18.6 million pre-tax charge in connection with the redemption, consisting of a $14.4 million redemption premium and the write-off of $4.2 million of unamortized deferred financing costs.

Table of Contents

Share Repurchase

On January 26, 2006, we repurchased 1.0 million shares of our outstanding common stock for $19.0 million, or $18.96 per share. These shares and all other shares held as treasury stock were retired during the second quarter of 2007.

Interest Rate Swaps

We are party to an interest rate swap agreement through January 2008 pursuant to which a notional $200.0 million of our U.S. floating rate debt was exchanged for fixed rate debt. The swap was designated as a cash flow hedge of future interest payments of LIBOR based U.S. floor plan borrowings. As of September 30, 2007, we expect approximately $0.2 million associated with the swap to be recognized as a reduction of interest expense over the next twelve months.

Other Financing Arrangements

We have in the past and expect in the future to enter into significant sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to a third-party and agree to lease those assets back for a certain period of time. Such sales generate proceeds which vary from period to period.

Off-Balance Sheet Arrangements 3.5% Convertible Senior Subordinated Notes due 2026

The Convertible Notes are convertible into shares of our common stock, at the option of the holder, based on certain conditions described above. Certain of these conditions are linked to the market value of our common stock. This type of financing arrangement was selected by us in order to achieve a more favorable interest rate (as opposed to other forms of available financing). Since we or the holders of the Convertible Notes can redeem these notes on or after April 2011, a conversion or a redemption of these notes is likely to occur in 2011. The repayment will include cash for the principal amount of the Convertible Notes then outstanding plus an amount payable in either cash or stock, at our option, depending on the trading price of our common stock.

Cash Flows

Cash and cash equivalents increased by $11.7 million and $12.1 million during the nine months ended September 30, 2007 and 2006, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was $343.4 million and $235.7 million during the nine months ended September 30, 2007 and 2006, respectively. Cash flows from operating activities include net income, as adjusted for non-cash items and the effects of changes in working capital.

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders. We report all cash flows arising in connection with floor plan arrangements with the manufacturer of a particular new vehicle as an operating activity and all cash flows arising in connection with floor plan arrangements with a party other than the manufacturer of a particular new vehicle and all floor plan notes payable relating to pre-owned vehicles as a financing activity.

We believe that changes in aggregate floor plan liabilities are linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. Consequently, we have provided below a reconciliation of cash flow from operating activities as reported in our condensed consolidated statement of cash flows as if all changes in vehicle floor plan were classified as an operating activity:

	Nine Months Ended September 30,	
	2007	2006
Net cash from operating activities as reported	$ 343,424	$ 235,674
Floor plan notes payable non-trade as reported	154,301	32,288
Net cash from operating activities including all floor plan notes payable	$ 497,725	$ 267,962

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was $142.3 million and $456.6 million during the nine months ended September 30, 2007 and 2006, respectively. Cash flows from investing activities consist primarily of cash used for capital expenditures, proceeds from sale-leaseback transactions and net expenditures for dealership acquisitions. Capital expenditures were $114.6 million and $150.2 million during the nine months ended September 30, 2007 and 2006, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. Proceeds from sale-leaseback transactions were $105.7 million and $62.8 million during the nine months ended September 30, 2007 and 2006, respectively. Cash used in business acquisitions, net of cash acquired, was $149.0 million and $369.2 million during the nine months ended September 30, 2007 and 2006, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of $43.0 million and $114.3 million during the nine months ended September 30, 2007 and 2006, respectively.

Cash Flows from Continuing Financing Activities

Cash used in continuing financing activities was $256.2 million during the nine months ended September 30, 2007 and cash provided by continuing financing activities was $223.3 million during the nine months ended September 30, 2006. Cash flows from financing activities include net borrowings or repayments of long-term debt, net borrowings or repayments of floor plan notes payable non-trade, payments of deferred financing costs, proceeds from the issuance of common stock, including proceeds from the exercise of stock options, repurchases of common stock and dividends. We had net repayments of long-term debt of $393.1 million during the nine months ended September 30, 2007, including $14.4 million of premium paid on the redemption of our 9.625% Senior Subordinated Notes, and net borrowings of long-term debt of $223.2 million during the nine months ended September 30, 2006. We had net borrowings of floor plan notes payable non-trade of $154.3 million and $32.3 million during the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2006, we paid $12.6 million of deferred financing costs primarily related to our issuance of the Convertible Notes. During the nine months ended September 30, 2007 and 2006, we received proceeds of $2.5 million and $18.0 million, respectively from the issuance of common stock. During the nine months ended September 30, 2006, we repurchased 1.0 million shares of our outstanding common stock for $19.0 million. During the nine months ended September 30, 2007 and 2006, we paid $19.9 million and $18.6 million, respectively, of cash dividends to our stockholders.

Cash Flows from Discontinued Operations

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

Contractual Payment Obligations

In addition to contractual obligations disclosed in our Form 10-K, the Company has recorded $35.0 million of unrecognized tax benefits as of September 30, 2007. Due to the subjective nature of these items, we are unable to make reasonably reliable estimates of timing of payments arising in connection with the unrecognized tax benefits.

Commitments

We are party to a joint venture with respect to our Honda of Mentor dealership in Ohio. We are required to repurchase our partner s interest in this joint venture in July 2008. We expect this payment to be approximately $4.7 million.

Table of Contents

Related Party Transactions

Stockholders Agreement

Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 40% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui) own approximately 16% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for one director who is a representative of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2014, upon the mutual consent of the parties or when either party no longer owns any of our common stock.

Other Related Party Interests and Transactions

Roger S. Penske is also a managing member of Penske Capital Partners and Transportation Resource Partners, each organizations that undertake investments in transportation-related industries. Richard J. Peters, one of our directors, is a managing director of Transportation Resource Partners. Mr. Peters and Roger S. Penske, Jr. are each directors of Penske Corporation. Robert H. Kurnick, Jr., our Vice Chairman, is also the President and a director of Penske Corporation. Eustace W. Mita and Lucio A. Noto (two of our directors) are investors in Transportation Resource Partners. One of our directors, Hiroshi Ishikawa, serves as our Executive Vice President International Business Development and serves in a similar capacity for Penske Corporation.

We are currently a tenant under a number of non-cancelable lease agreements with Automotive Group Realty, LLC and its subsidiaries (together AGR), which are subsidiaries of Penske Corporation. From time to time, we may sell AGR real property and improvements that are subsequently leased by AGR to us. In addition, we may purchase real property or improvements from AGR. Each of these transactions is valued at a price that is independently confirmed. We sometimes pay to and/or receive fees from Penske Corporation and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others behalf. These transactions and those relating to AGR mentioned above, are reviewed periodically by our Audit Committee and reflect the provider s cost or an amount mutually agreed upon by both parties.

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

Table of Contents

Joint Venture Relationships

From time to time, we enter into joint venture relationships in the ordinary course of business, pursuant to which we acquire dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of September 30, 2007, our joint venture relationships were as follows:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche	90.00%(A)(B)
Edison, New Jersey	Ferrari	70.00%(B)
Tysons Corner, Virginia	Aston Martin, Audi, Mercedes-Benz, Porsche Las	90.00%(B)(C)
Las Vegas, Nevada	Ferrari, Maserati	50.00%(D)
Mentor, Ohio	Honda	75.00%(B)
Munich, Germany	BMW, MINI	50.00%(D)
Frankfurt, Germany	Lexus, Toyota	50.00%(D)
Aachen, Germany	Audi, Lexus, Toyota, Volkswagen	50.00%(D)
Mexico	Toyota	48.70%(D)
Mexico	Toyota	45.00%(D)

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor), owns a 10% interest in this joint venture, which entitles the Investor to 20% of the joint venture s operating profits. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts

(B) Entity is consolidated in our financial statements

(C)

Roger S. Penske, Jr. owns a 10% interest in this joint venture

(D) Entity is accounted for using the equity method of accounting

Cyclicality

Unit sales of motor vehicles, particularly new vehicles, historically have been cyclical, fluctuating with general economic cycles. During economic downturns, the automotive retailing industry tends to experience periods of decline and recession similar to those experienced by the general economy. We believe that the industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, fuel prices, interest rates and credit availability.

Seasonality

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for cars and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where dealerships may be subject to severe winters. The greatest U.S. seasonality exists at the dealerships we operate in northeastern and upper mid-western states, for which the second and third quarters are the strongest with respect to vehicle-related sales. 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. The service and parts business at all dealerships experiences relatively modest seasonal fluctuations.

Effects of Inflation

We believe that inflation rates over the last few years have not had a significant impact on revenues or profitability. We do not expect inflation to have any near-term material effects on the sale of our products and services, however, we cannot be sure there will be no such effect in the future. We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on the prime rate, LIBOR or the Euro Interbank Offer Rate. Such rates have historically increased during periods of increasing inflation.

Table of Contents

Forward Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements which generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, plan, estimate, predict, po continue or variations of such terms, or the use of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial performance;
- future acquisitions;
- future capital expenditures;
- our ability to obtain cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate dealerships;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- interest rates;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our annual report on Form 10-K filed March 1, 2007. Important factors that could cause actual results to differ materially from our expectations include the following:

- the ability of automobile manufacturers to exercise significant control over our operations, since we depend on them in order to operate our business;
- because we depend on the success and popularity of the brands we sell, adverse conditions affecting one or more automobile manufacturers may negatively impact our revenues and profitability;
- we may not be able to satisfy our capital requirements for acquisitions, dealership renovation projects or financing the purchase of our inventory;
- our failure to meet a manufacturer s consumer satisfaction requirements may adversely affect our ability to acquire new dealerships, our ability to obtain incentive payments from manufacturers and our profitability;
- our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, consumer confidence, fuel prices and credit availability;
- substantial competition in automotive sales and services may adversely affect our profitability;

43

Table of Contents

- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel, our business could be adversely affected;
- because most customers finance the cost of purchasing a vehicle, increased interest rates in the U.S. or the U.K. may adversely affect our vehicle sales;
- our business may be adversely affected by import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;
- our automobile dealerships are subject to substantial regulation which may adversely affect our profitability;
- if state dealer laws in the United States are repealed or weakened, our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements;
- our U.K. dealerships are not afforded the same legal franchise protections as those in the U.S. so we could be subject to addition competition from other local dealerships in the U.K.;
- our automotive dealerships are subject to environmental regulations that may result in claims and liabilities;
- our dealership operations may be affected by severe weather or other periodic business interruptions;
- our principal stockholders have substantial influence over us and may make decisions with which other stockholders may disagree;
- some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests;
- our level of indebtedness may limit our ability to obtain financing for acquisitions and may require that a significant portion of our cash flow be used for debt service;
- we may be involved in legal proceedings that could have a material adverse effect on our business;
- our operations outside of the United States subject our profitability to fluctuations relating to changes in foreign currency valuations; and
- we are a holding company and, as a result, must rely on the receipt of payments from our subsidiaries, which are subject to limitations, in order to meet our cash needs and service our indebtedness.

In addition:

- the price of our common stock is subject to substantial fluctuation, which may be unrelated to our performance; and
- shares eligible for future sale, or issuable under the terms of our convertible notes, may cause the market price of our common stock to drop significantly, even if our business is doing well.

We urge you to carefully consider these risk factors in evaluating all forward-looking statements regarding our business. Readers of this report are cautioned not to place undue reliance on the forward-looking statements contained in this report. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Except to the extent required by the federal securities laws and Securities and Exchange Commission rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rates. We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding indebtedness. Outstanding balances under our credit agreements bear interest at variable rates based on a margin over defined benchmarks. As of September 30, 2007, there were no amounts outstanding under our variable rate credit agreements. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over defined benchmarks. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the trailing twelve months ended September 30, 2007, a 100 basis point change in interest rates would result in an approximate $11.2 million change to our annual interest expense.

We continually evaluate our exposure to interest rate fluctuations and follow established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to mitigate the effect of interest rate fluctuations on our earnings and cash flows. We are currently party to a swap agreement pursuant to which a notional $200.0 million of our floating rate floor plan debt was exchanged for fixed rate debt through January 2008.

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

Foreign Currency Exchange Rates. As of September 30, 2007, we have dealership operations in the U.K. and Germany. In each of these markets, the local currency is the functional currency. Due to our intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate $248.0 million change to our revenues for the nine months ended September 30, 2007.

In common with other automotive retailers, we purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase the majority of our inventories in the local functional currency, our business is subject to certain risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility which may influence such manufacturers ability to provide their products at competitive prices in the local jurisdictions. Our future results could be materially and adversely impacted by changes in these or other factors.

Item 4. ***Controls and Procedures***

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

Based upon this evaluation, the Company s principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, we maintain internal controls designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal control over financial reporting that occurred during our third quarter of 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

From time to time, we are involved in litigation relating to claims arising in the normal course of business. Such claims may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of September 30, 2007, we are not a party to any legal proceedings, including class action lawsuits, that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

Item 6. ***Exhibits***

12 Computation of Ratio of Earnings to Fixed Charges

31 Rule 13a-14(a)/15(d)-14(a) Certifications

32 Section 1350 Certifications

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENSKE AUTOMOTIVE GROUP, INC.

	By: /s/ Roger S. Penske
	Roger S. Penske
Date: October 25, 2007	*Chief Executive Officer*
	By: /s/ Robert T. O Shaughnessy
	Robert T. O Shaughnessy
Date: October 25, 2007	*Chief Financial Officer*

EXHIBIT INDEX

Exhibit No.	Description
12	Computation of Ratio of Earnings to Fixed Charges
31	Rule 13a-14(a)/15(d)-14(a) Certifications
32	Section 1350 Certifications