

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

August 03, 2007

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

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from _____ to _____

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

22-3086739

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

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

(Address of principal executive offices)

48302-0954

(Zip Code)

Registrant's telephone number, including area code:

(248) 648-2500

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

Accelerated Filer

Non-accelerated Filer

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

As of July 23, 2007, there were 94,948,516 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

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

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Common Stock, \$0.0001 par value, 240,000 shares authorized; 94,933 shares issued at June 30, 2007; 94,468 shares issued at December 31, 2006

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

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

Additional paid-in-capital	727,893	768,794
Retained earnings	529,959	492,704
Accumulated other comprehensive income	90,055	79,379
Treasury stock, at cost; 0 shares at June 30, 2007 and 5,306 shares at December 31, 2006		(45,233)

Total stockholders' equity	1,347,916	1,295,653
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Total liabilities and stockholders' equity	\$ 4,651,081	\$ 4,469,802
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See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

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

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

* See Note 1

See Notes to Consolidated Condensed Financial Statements

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

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

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Proceeds from exercises of options, including excess tax benefit	1,527	17,492
Repurchase of common stock		(18,955)
Dividends	(13,252)	(12,063)
Net cash from continuing financing activities	(210,845)	136,416
Discontinued operations:		
Net cash from discontinued operating activities	13,866	6,431
Net cash from discontinued investing activities	40,058	8,056
Net cash from discontinued financing activities	16,159	(4,645)
Net cash from discontinued operations	70,083	9,842
Net change in cash and cash equivalents	5,109	18,056
Cash and cash equivalents, beginning of period	13,147	8,957
Cash and cash equivalents, end of period	\$ 18,256	\$ 27,013

Supplemental disclosures of cash flow information:

Cash paid for:		
Interest	\$ 76,418	\$ 50,874
Income taxes	12,598	14,244
Seller financed debt	4,953	

* See Note 1

See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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

1. Interim Financial Statements

Basis of Presentation

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 128,953	\$ 234,117	\$ 266,068	\$ 460,622
Pre-tax income (loss)	819			