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

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

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

For the fiscal year ended December 31, 2009

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

For the transition period from __________ to __________

Commission file number 1-12297
Penske Automotive Group, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code (248) 648-2500
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

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

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

Documents Incorporated by Reference

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

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PART I

Item 1. *Business*

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of December 31, 2009, we owned and operated 158 franchises in the U.S. and 148 franchises outside of the U.S., primarily in the U.K. We offer a full range of vehicle brands with 95% of our total retail revenue in 2009 generated from brands of non-U.S. based manufacturers, and 65% generated from premium brands, such as Audi, BMW, Cadillac and Porsche. Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher-margin products, such as third party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products. We are also diversified geographically, with 63% of our total revenues in 2009 generated by operations in the U.S. and Puerto Rico and 37% generated from our operations outside the U.S. (predominately in the U.K.).

We are also, through smart USA Distributor, LLC (smart USA), a wholly-owned subsidiary, the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico. The smart fortwo is manufactured by Mercedes-Benz Cars and is a Daimler brand. This technologically advanced vehicle achieves more than 40 miles per gallon on the highway and is an ultra-low emissions vehicle as certified by the State of California Air Resources Board. As of December 31, 2009, smart USA had certified a network of more than 75 smart dealerships, nine of which are owned and operated by us. The smart fortwo offers five different versions, the pure, passion coupe, passion cabriolet, BRABUS coupe and BRABUS cabriolet, with base prices ranging from $11,990 to $20,990.

In June 2008, we acquired a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider, from subsidiaries of General Electric Capital Corporation (collectively, GE Capital). PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital.

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

Outlook

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

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Long-Term Business Strategy

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

Offer Outstanding Brands in Premium Facilities

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

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

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

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

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

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

Maintain Variable Cost Structure and Diversified Revenue Stream

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

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

Diversification Outside the U.S.

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

smart Distributorship

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

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Investment in Penske Truck Leasing

In June 2008, we acquired a 9.0% limited partnership interest in PTL. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. We currently expect to receive annual pro-rata cash distributions of a portion of the partnership s profits and to realize U.S. cash tax savings relating to tax attributes as a result of this investment.

Expand Revenues at Existing Locations and Increase Higher-Margin Businesses

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

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

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

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

Continue Growth through Targeted Acquisitions

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

Strengthen Customer Loyalty

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

Leverage Scale and Implement Best Practices

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

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Industry Overview

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

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

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

Acquisitions

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

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

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

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

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

Dealership Operations

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

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

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

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

Others	6	11	17
Total	158	148	306

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

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

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

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

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

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

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

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

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

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

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

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

U.S. DEALERSHIPS

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

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

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

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

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

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

INDIANA
Penske Chevrolet
Penske Honda

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

MINNESOTA
Motorwerks BMW/MINI

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

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

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

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

TENNESSEE
Wolfchase Toyota-Scion

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

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

Marin Honda	Honda of Turnersville

NON-U.S. DEALERSHIPS

U.K.
Audi
Bradford Audi
Derby Audi
Harrogate Audi
Huddersfield Audi
Leeds Audi
Leicester Audi
Mayfair Audi
Nottingham Audi
Reading Audi
Slough Audi
Wakefield Audi
West London Audi
Bentley
Bentley Birmingham
Bentley Edinburgh
Bentley Leicester
Bentley Manchester
BMW/MINI
Sytner Birmingham
Sytner Cardiff
Sytner Chigwell
Sytner Coventry
Sytner Docklands
Sytner Harold Wood
Sytner High Wycombe
Sytner Leicester
Sytner Newport
Sytner Nottingham
Sytner Oldbury
Sytner Sheffield
Sytner Solihull
Sytner Sunningdale
Sytner Sutton
Chrysler/Jeep/Dodge
Kings Cheltenham & Gloucester
Kings Manchester
Kings Newcastle
Kings Swindon
Kings Teesside
Ferrari/Maserati
Graypaul Nottingham
Maranello Egham Ferrari/Maserati
Honda
Honda Gatwick
Honda Redhill
Jaguar/Land Rover
Guy Salmon Jaguar Coventry
Guy Salmon Jaguar/Land Rover Ascot
Guy Salmon Jaguar/Land Rover Gatwick
Guy Salmon Jaguar/Land Rover Maidstone
Guy Salmon Jaguar/Land Rover Thames Ditton
Guy Salmon Jaguar Northampton
Guy Salmon Jaguar Oxford
Guy Salmon Land Rover Bristol
Guy Salmon Land Rover Coventry
Guy Salmon Land Rover Knutsford
Guy Salmon Land Rover Portsmouth
Guy Salmon Land Rover Sheffield
Guy Salmon Land Rover Stockport
Guy Salmon Land Rover Stratford-upon-Avon
Guy Salmon Land Rover Wakefield
Lamborghini
Lamborghini Birmingham
Lamborghini Edinburgh
Lexus
Lexus Birmingham
Lexus Bristol
Lexus Cardiff
Lexus Leicester
Lexus Milton Keynes
Mercedes-Benz/smart
Mercedes-Benz of Bath
Mercedes-Benz of Bedford
Mercedes-Benz of Carlisle
Mercedes-Benz of Cheltenham and Gloucester
Mercedes-Benz of Newbury
Mercedes-Benz of Northampton
Mercedes-Benz of Sunderland
Mercedes-Benz of Swindon
Mercedes-Benz of Weston-Super-Mare
Mercedes-Benz/smart of Bristol
Porsche
Porsche Centre Edinburgh
Porsche Centre Glasgow
Porsche Centre Leicester
Porsche Centre Mid-Sussex
Porsche Centre Silverstone
Porsche Centre Solihull
Rolls-Royce
Rolls-Royce Motor Cars Manchester
Rolls-Royce Motor Cars Sunningdale
Saab
Oxford Saab
Toyota
Toyota World Birmingham
Toyota World Bridgend
Toyota World Bristol North
Toyota World Bristol South
Toyota World Cardiff
Toyota World Newport
Toyota World Solihull
Toyota World Tamworth
Volkswagen
SEAT Huddersfield
VW Harrogate
VW Huddersfield
VW Leeds
Volvo
Tollbar Warwick
GERMANY
Penske Sportwagenzentrum
Tamsen, Bremen (Aston Martin, Bentley, Ferrari, Maserati)
Tamsen, Hamburg (Aston Martin, Ferrari, Lamborghini, Maserati)
PUERTO RICO
Lexus de San Juan
Triangle Chrysler, Dodge, Jeep de Ponce
Triangle Chrysler, Dodge, Jeep, Honda del Oeste
Triangle Honda 65 de Infanteria
Triangle Honda-Suzuki de Ponce
Triangle Mazda de Ponce
Triangle Nissan del Oeste

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

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We also own 50% of the following dealerships:

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

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

Management Information Systems

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

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

Marketing

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

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

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

Agreements with Vehicle Manufacturers

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

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

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

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

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

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Competition

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

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

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

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

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

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

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

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

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

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Employees and Labor Relations

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

Regulation

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

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

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

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

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

Environmental Matters

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

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

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

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

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

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

Insurance

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

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

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

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Seasonality

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K.

Available Information

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

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

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

RISK RELATING TO OUR BUSINESS

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

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

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

RISKS RELATING TO AUTOMOTIVE MANUFACTURERS

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

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

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

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

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

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

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

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

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

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

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

U.S. based automotive manufacturers have been experiencing decreasing U.S. market share in recent years. Beginning in 2008, these manufacturers also experienced significant operational and financial distress, due in part to shrinking market share in the U.S. and the recent limitation in worldwide credit capacity. In 2008 and early 2009, certain of these manufacturers filed for bankruptcy protection. While we have limited exposure to these manufacturers in terms of the percentage of our overall revenue, further restructuring efforts by any one of them or restructuring efforts at any of the other manufacturers we represent would likely lead to significant disruption to our dealerships that represent them, including, but not limited to, a loss of availability of new vehicle inventory, reduced consumer demand for vehicle inventory, the loss of funding for existing or future inventory, non-payment of receivables due from that manufacturer, and/or the cancellation of our franchise agreement without cancellation of our underlying lease and other obligations. Such restructuring of one of these manufacturers could also impact other automotive manufacturers and suppliers. We cannot reasonably predict the impact to the automotive retail environment of any such disruption, but believe it would be significant and adverse to the industry as a whole. Any restructuring of a significant automotive supplier, due to limited liquidity or credit availability or otherwise may have similar consequences.

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

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

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

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

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

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RISKS RELATING TO OUR ACQUISITION STRATEGY

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

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

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

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

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

Manufacturers restrictions on acquisitions may limit our future growth.

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

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

OTHER BUSINESS RISKS

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

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

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

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

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

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

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

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

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

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

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

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

Our interest costs may also rise independent of general interest rates. For example, the dislocation of worldwide credit markets has resulted in an increase in the cost of capital for the captive finance subsidiaries that provide us financing for our inventory procurement. Certain of those companies have responded by increasing the cost of such financing to us. Materially increased interest costs could materially adversely affect our results of operations, financial condition or cash flows.

Our substantial indebtedness and lease commitments may limit our ability to obtain financing for acquisitions and may require that a significant portion of our cash flow be used for debt service, debt repayment and lease payments.

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

We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease substantially all of our dealerships properties and other facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at our election. Our total rent obligations under those leases, including extension periods we may exercise at our discretion and assuming constant consumer price indices, is currently estimated to be approximately $4.8 billion.

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

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

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

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

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

In January 2006, we issued $375.0 million aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes), of which $262.2 million is currently outstanding ($306.3 million on December 31, 2009). Holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on April 1, 2011, at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date. We currently expect to redeem the Convertible Notes in April 2011 or otherwise refinance the notes on or prior thereto. If our business does not generate sufficient cash flow from operations or future sufficient borrowings are not available to us, we may not be able to refinance or repay the Convertible Notes. In that event, we may have to delay or cancel acquisitions, sell equity securities, sell assets or restructure or refinance the Convertible Notes and our other indebtedness. If these efforts are not successful, our results of operations, financial condition and cash flows may be materially adversely impacted, including by resulting in cross-defaults of substantially all of our other indebtedness.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not Applicable.

Item 2. ***Properties***

We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease substantially all of our facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at our election. We lease office space in Bloomfield Hills, Michigan, Leicester, England and Stuttgart, Germany for our administrative headquarters and other corporate related activities. We believe that our facilities are sufficient for our needs and are in good repair.

Item 3. ***Legal Proceedings***

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

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

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

PART II

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

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

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

Dividends. We paid dividends of nine cents per share on March 3, 2008, June 2, 2008, September 1, 2008 and December 1, 2008. In February 2009, we announced the suspension of our quarterly cash dividend. Future quarterly or other cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions imposed by any then existing indebtedness and other factors considered relevant by the Board of Directors. The indenture governing our 7.75% senior subordinated notes contains, and any future indenture that governs any notes which may be issued by us may contain, certain limitations on our ability to pay dividends. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. We are a holding company whose assets consist primarily of the direct or indirect ownership of the capital stock of our operating subsidiaries. Consequently, our ability to pay dividends is dependent upon the earnings of our subsidiaries and their ability to distribute earnings and other advances and payments to us. Also, pursuant to the automobile franchise agreements to which our dealerships are subject, our dealerships are generally required to maintain a certain amount of working capital, which could limit our subsidiaries ability to pay us dividends.

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SHARE INVESTMENT PERFORMANCE

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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

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

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

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Item 6. *Selected Financial Data*

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

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

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

(2) Includes charges of

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

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

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

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

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

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Item 1A. Risk Factors and Forward Looking Statements. We have acquired and initiated a number of businesses since inception. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management s Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through December 31, 2009.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenues. As of December 31, 2009, we owned and operated 158 franchises in the U.S. and 148 franchises outside of the U.S., primarily in the U.K. We offer a full range of vehicle brands with 95% of our total retail revenue in 2009 generated from brands of non-U.S. based manufacturers, and 65% generated from premium brands, such as Audi, BMW, Cadillac and Porsche. Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher-margin products, such as third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products. We are also diversified geographically, with 63% of our total revenues in 2009 generated by operations in the U.S. and Puerto Rico and 37% generated from our operations outside the U.S. (predominately in the U.K.).

We are also, through smart USA Distributor, LLC, a wholly-owned subsidiary, the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico. The smart fortwo is manufactured by Mercedes-Benz Cars and is a Daimler brand. This technologically advanced vehicle achieves more than 40 miles per gallon on the highway and is an ultra-low emissions vehicle as certified by the State of California Air Resources Board. As of December 31, 2009, smart USA has certified a network of more than 75 smart dealerships, nine of which are owned and operated by us. The smart fortwo offers five different versions, the *pure, passion coupe, passion cabriolet, BRABUS coupe and BRABUS cabriolet,* with base prices ranging from $11,990 to $20,990. smart USA wholesaled 27,052 smart fortwo vehicles in 2008 and 13,772 smart fortwo vehicles in 2009.

In June 2008, we acquired a 9% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider, from subsidiaries of General Electric Capital Corporation. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital.

Outlook

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

Operating Overview

New and used vehicle revenues include sales to retail customers and to leasing companies providing consumer automobile leasing. We generate finance and insurance revenues from sales of third-party extended service contracts, sales of third-party insurance policies, fees for facilitating the sale of third-party finance and lease contracts and the sale of certain other products. Service and parts revenues include fees paid for repair, maintenance and collision services, the sale of replacement parts and the sale of aftermarket accessories. During 2009, the challenging operating environment contributed to a year over year decline in same store new and used vehicle unit sales and finance and insurance revenues. Our same store service and parts business also experienced a decline during the year, although less so than vehicle sales. We expect a continuation of this difficult operating environment in 2010.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, service and parts transactions, and the distribution of the smart fortwo. Our gross profit varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as inventory and vehicle availability, customer demand, consumer confidence, unemployment, general economic conditions, seasonality, weather, credit availability, fuel prices and manufacturers advertising and incentives may impact the mix of our revenues, and therefore influence our gross profit margin.

Our selling expenses consist of advertising and compensation for sales personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, rent, insurance, utilities, and other outside services. A significant portion of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, allowing us to adjust them over time to reflect economic trends. Our selling, general and administrative expenses for compensation and advertising have decreased in 2009, due in part to lower vehicle sales volumes, coupled with cost savings in compensation and advertising. Our rent expense is expected to grow as a result of cost of living indexes outlined in our lease agreements; however, a portion of the rent increase has been offset by concessions granted by certain landlords in recognition of current market conditions.

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

Equity in earnings of affiliates represents our share of the earnings relating to investments in joint ventures and other non-consolidated investments, including PTL. It is our expectation that the difficult operating conditions outlined above will similarly impact these businesses in 2010.

The future success of our business will likely be dependent on, among other things, general economic and industry conditions, our ability to consummate and integrate acquisitions, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealerships, the success of our distribution of the smart fortwo, and the return realized from our investments in various joint ventures and other non-consolidated investments. See Item 1A Risk Factors and Forward Looking Statements.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

Vehicle, Parts and Service Sales

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursement of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. During the years ended December 31, 2009, 2008 and 2007, we earned $319.8 million, $323.9 million and $343.9 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $314.1 million, $316.4 million and $337.3 million was recorded as a reduction of cost of sales.

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Finance and Insurance Sales

Subsequent to the sale of a vehicle to a customer, we sell our installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract.

Impairment Testing

Franchise value impairment is assessed as of October 1 every year and upon the occurrence of an indicator of impairment through a comparison of its carrying amount and estimated fair value. An indicator of impairment exists if the carrying value of a franchise exceeds its estimated fair value and an impairment loss may be recognized up to that excess. The fair value of franchise value is determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, and our cost of capital. We also evaluate our franchise agreements in connection with the annual impairment testing to determine whether events and circumstances continue to support our assessment that the franchise agreements have an indefinite life.

Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. We have determined that the dealerships in each of our operating segments within the Retail reportable segment, which are organized by geography, are components that are aggregated into five reporting units as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). Accordingly, our operating segments are also considered our reporting units for the purpose of goodwill impairment testing relating to our Retail reportable segment. There is no goodwill recorded in our Distribution or PAG Investments reportable segments. An indicator of goodwill impairment exists if the carrying amount of the reporting unit, including goodwill, is determined to exceed the estimated fair value. The fair value of goodwill is determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, residual values and our cost of capital. If an indication of goodwill impairment exists, an analysis reflecting the allocation of the fair value of the reporting unit to all assets and liabilities, including previously unrecognized intangible assets, is performed. The impairment is measured by comparing the implied fair value of the reporting unit goodwill with its carrying amount and an impairment loss may be recognized up to that excess.

Investments

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

The net book value of our investments was $295.5 million and $297.8 million as of December 31, 2009 and 2008, respectively. Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, profit margins, residual values and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments carrying value to fair value.

Self-Insurance

We retain risk relating to certain of our general liability insurance, workers compensation insurance, auto physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance, and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined loss limits are paid by third-party insurance carriers. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were $21.5 million and $19.2 million as of December 31, 2009 and 2008, respectively. Changes in the reserve estimate during 2009 relate primarily to the inclusion of additional participants in our self-insured employee medical benefit plans and reserves for current year activity in our general liability and workers compensation programs.

Income Taxes

Tax regulations may require items to be included in our tax return at different times than those items are reflected in our financial statements. Some of the differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as the timing of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that will be used as a tax deduction or credit in our tax return in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax return that have not yet been recognized as expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit. A valuation allowance of $6.1 million has been recorded relating to net operating losses and credit carryforwards in the U.S. based on our determination that it is more likely than not that they will not be utilized.

Classification of Franchises in Continuing and Discontinued Operations

We classify the results of our operations in our consolidated financial statements based on general accounting principles for discontinued operations, which requires judgment in determining whether a franchise will be reported within continuing or discontinued operations. Such judgments include whether a franchise will be divested, the period required to complete the divestiture, and the likelihood of changes to the divestiture plans. If we determine that a franchise should be reclassified from continuing operations to discontinued operations, or from discontinued operations to continuing operations, our consolidated financial statements for prior periods are revised to reflect such reclassification.

New Accounting Pronouncement

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

Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a same-store basis. Dealership results are included in same-store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2008, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2010.

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

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

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

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

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

New Vehicle Data

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

Units

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

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

Revenues

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

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Gross Profit

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

Used Vehicle Data

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

Units

Retail unit sales of used vehicles increased 425 units, or 0.4%, from 2008 to 2009 and increased 1,839 units, or 1.8%, from 2007 to 2008. The increase from 2008 to 2009 is due to a 4,037 unit increase from net dealership acquisitions during the year, offset by a 3,612, or 3.6%, decrease in same-store used retail unit sales. The same-store decrease in 2009 versus 2008 was due primarily to unit sales decreases in volume foreign and domestic brand stores in the U.S., offset by increases in unit sales at premium brand stores in the U.S. The increase from 2007 to 2008 is due to a 1,702 unit increase from net dealership acquisitions during the year, coupled with a 137 unit, or 0.1%, increase in same-store used retail unit sales. The same-store decrease in 2008 versus 2007 was driven primarily by decreases in our premium brands in the U.K. and volume foreign brands in the U.S., offset by increases in our premium brands in the U.S. We believe our sales of used vehicle units was influenced by the reduction in traffic in our stores resulting from the decline in consumer confidence, offset by customers electing to purchase used vehicles as a less expensive alternative to new vehicles due to the challenging economic climate.

Revenues

Used vehicle retail sales revenue decreased $247.4 million, or 8.7%, from 2008 to 2009 and decreased $249.7 million, or 8.1%, from 2007 to 2008. The decrease from 2008 to 2009 is due to a $356.5 million, or 12.9%, decrease in same-store revenues, offset by a $109.1 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due to a $2,675, or 9.6%, decrease in comparative average selling price per vehicle, which decreased revenue by $256.1 million, coupled with the 3.6% decrease in retail unit sales, which decreased revenue by $100.4 million. The decrease from 2007 to 2008 is due to a $313.4 million, or 10.6%, decrease in same-store revenues, offset by a $63.7 million increase from net dealership acquisitions during the year. The same-store revenue decrease is due primarily to the $3,329, or 10.7%, decrease in comparative average selling price per vehicle, which decreased revenue by $317.2 million, offset by the 0.1% increase in retail unit sales, which increased revenue by $3.8 million.

Gross Profit

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

Finance and Insurance Data

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

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

Service and Parts Data

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

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

Revenues

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

Gross Profit

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

Distribution

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

Selling, General and Administrative

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

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

Intangible Impairments

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

Depreciation and Amortization

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

Floor Plan Interest Expense

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

Other Interest Expense

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

Debt Discount Amortization

Debt discount amortization decreased $0.9 million, or 6.7%, from 2008 to 2009 and increased $1.1 million, or 8.4%, from 2007 to 2008. The decrease from 2008 to 2009 is due primarily to the write off of a portion of our aggregate debt discount in connection with the repurchase of a portion of our outstanding 3.5% senior subordinated convertible notes in March 2009. The increase from 2007 to 2008 is a result of the requirement to amortize the debt discount over the expected life of the obligation so as to maintain a consistent effective interest rate.

Equity in Earnings of Affiliates

Equity in earnings of affiliates decreased $2.7 million, from 2008 to 2009 and increased $12.4 million, from 2007 to 2008. The decrease from 2008 to 2009 is primarily related to the impact of the difficult operating conditions outlined above, offset by earnings associated with our investment in PTL in June 2008. The increase from 2007 to 2008 is largely due to our investment in PTL in June 2008.

Gain on Debt Repurchase

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

Income Taxes

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

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new businesses, the improvement and expansion of existing facilities, the construction of new facilities and debt service, and potentially for dividends and repurchases of our outstanding securities under the program discussed below. Historically, these cash requirements have been met through cash flow from operations, borrowings under our credit agreements and floor plan arrangements, the issuance of debt securities, sale-leaseback transactions, mortgages, or the issuance of equity securities. As discussed in more detail below, we have currently outstanding $262.2 million ($306.3 million on December 31, 2009) in 3.5% senior subordinated convertible notes. We currently expect to be required to redeem these notes in April 2011 if we do not otherwise refinance them prior to April 2011. As of December 31, 2009, we had working capital of $113.6 million, including $13.8 million of cash, available to fund our operations and capital commitments. In addition, we had $250.0 million and £65.5 million ($105.9 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively, each of which is discussed below.

We have historically expanded our retail automotive operations through organic growth and the acquisition of retail automotive dealerships. In addition, one of our subsidiaries is the exclusive distributor of smart fortwo vehicles in the U.S. and Puerto Rico. We believe that cash flow from operations and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our operations and commitments for at least the next twelve months. To the extent we pursue additional significant acquisitions, other expansion opportunities, significant repurchases of our outstanding securities, or refinance or repay existing debt (including our 3.5% senior subordinated convertible notes), we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings, which sources of funds may not necessarily be available on terms acceptable to us, if at all. In addition, our liquidity could be negatively impacted in the event we fail to comply with the covenants under our various financing and operating agreements or in the event our floor plan financing is withdrawn. For a discussion of these possible events, see the discussion below with respect to our financing agreements, as well as Item 1A Risk Factors.

Share Repurchases and Dividends

During 2009, we repurchased $68.7 million aggregate principal amount of 3.5% senior subordinated convertible notes for $51.4 million under a securities repurchase program approved by our board of directors for up to $150.0 million. During 2008, we repurchased 4.015 million shares for $53.7 million, or an average of $13.36 per share, under this program. In the first quarter of 2010, we exhausted the authority under this program by repurchasing an additional $44.1 million aggregate principal amount of 3.5% senior subordinated convertible notes for $44.4 million. In February 2010, our board of directors approved an additional $150.0 million in authority to repurchase our outstanding securities. Under this new program, we may, from time to time as market conditions warrant, purchase our outstanding common stock, debt or convertible debt on the open market and in privately negotiated transactions and, potentially, via a tender offer or a pre-arranged trading plan. We have historically funded repurchases through cash flow from operations and borrowings under our U.S. credit facility. The decision to make repurchases will be based on factors such as the market price of the relevant security versus our view of its intrinsic value, the potential impact of such repurchases on our capital structure, and alternative uses of capital, such as for strategic investments in our current business, as well as any then-existing limits imposed by our finance agreements and securities trading policy.

We paid the following dividends in 2007 and 2008:

Per Share Dividends

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

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

In February 2009, we announced the suspension of our quarterly cash dividend. Future quarterly or other cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions on any then existing indebtedness and other factors considered relevant by our Board of Directors.

Inventory Financing

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, we have not historically been required to make loan principal repayments prior to the sale of the vehicles financed. We typically make monthly interest payments on the amount financed. In the U.K., substantially all of our floor plan arrangements are payable on demand or have an original maturity of 90 days or less and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles financed or the stated maturity. The floor plan agreements grant a security interest in substantially all of the assets of our dealership subsidiaries and in the U.S. are guaranteed by us. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate (LIBOR), the Finance House Base Rate, or the Euro Interbank Offer Rate. We receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing. See Results of Operations Floor Plan Interest Expense for a discussion of the impact of challenging credit conditions on the rates charged to us under these agreements.

U.S. Credit Agreement

We are party to a $409.0 million credit agreement with DCFS USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. credit agreement), which provides for up to $250.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan with a remaining balance of $149.0 million (originally funded for $219.0 million), and for an additional $10.0 million of availability for letters of credit, through September 30, 2012. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 0.50% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, may be prepaid at any time, but then may not be reborrowed. We repaid $60.0 million of this term loan during 2009.

The U.S. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. credit agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of December 31, 2009, we were in compliance with all covenants under the U.S. credit agreement, and we believe we will remain in compliance with such covenants for the next twelve months. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments. However, in the event of continued weakness in the economy and the automotive sector in particular, we may need to seek covenant relief. See Item 1A Risk Factors, including Our failure to comply with our debt and operating lease covenants could have a material adverse effect on our business, financial condition and results of operations and -Forward Looking Statements.

The U.S. credit agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets are subject to security interests granted to lenders under the U.S. credit agreement. As of December 31, 2009, $149.0 million of term loans and $1.3 million of letters of credit and no revolving borrowings were outstanding under the U.S. credit agreement.

U.K. Credit Agreement

Our subsidiaries in the U.K. (the U.K. subsidiaries) are party to an agreement, as amended, with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a funded term loan, a revolving credit agreement and a seasonally adjusted overdraft line of credit (collectively, the U.K. credit agreement) to be used to finance acquisitions and for working capital and general corporate purposes. The U.K. credit agreement provides for (1) up to £100.0 million in revolving loans through August 31, 2013, which bears interest between a defined LIBOR plus 1.1% and defined LIBOR plus 3.0%, (2) a term loan originally funded for £30.0 million which bears interest between 6.39% and 8.29% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a demand seasonally adjusted overdraft line of credit for up to £20.0 million that bears interest at the Bank of England Base Rate plus 1.75%.

The U.K. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with specified ratios and tests, each as defined in the U.K. credit agreement, including: a ratio of EBITDAR 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 December 31, 2009, our U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement and we believe they will remain in compliance with such covenants for the next twelve months. In making such determination, we have considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K. However, in the event of continued weakness in the U.K. economy and its automotive sector in particular, we may need to seek covenant relief. See Item 1A Risk Factors, including Our failure to comply with our debt and operating lease covenants could have a material adverse effect on our business, financial condition and results of operations and -Forward Looking Statements.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries assets are subject to security interests granted to lenders under the U.K. credit agreement. As of December 31, 2009, outstanding loans under the U.K. credit agreement amounted £55.0 million ($89.0 million), including £10.6 million ($17.1 million) under the term loan.

7.75% Senior Subordinated Notes

On December 7, 2006 we issued $375.0 million aggregate principal amount of 7.75% senior subordinated notes due 2016 (the 7.75% Notes). The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under our credit agreements, mortgages, and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of our wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. We can redeem all or some of the 7.75% Notes at our option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable make-whole premium, as defined. 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 December 31, 2009, we were in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

In January 2006, we issued $375.0 million aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes), of which $306.3 million was outstanding on December 31, 2009 and of which $262.2 million are currently outstanding. The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by us, as discussed below. The Convertible Notes are unsecured senior subordinated obligations and are subordinate to all future and existing debt under our credit agreements, mortgages, and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of our wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of December 31, 2009, we were in compliance with all negative covenants and there were no events of default.

Holders of the Convertible Notes may convert them based on a conversion rate of 42.7796 shares of our common stock per $1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately $23.38 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of our common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of our common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or

(6) during the ten trading days prior to, but excluding, the maturity date.

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

In the event of a conversion due to a change of control on or before April 6, 2011, we will, in certain circumstances, pay a make-whole premium by increasing the conversion rate used in that conversion. In addition, we will pay additional cash interest commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes. On or after April 6, 2011, we may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date.

Holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2011, April 1, 2016 or April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date. Because of this feature, we currently expect to be required to redeem the Convertible Notes in April 2011 or otherwise refinance the notes on or prior thereto. See Item 1A- Risk Factors, including If we are unable to refinance or repay our 3.5% senior subordinated convertible notes in April 2011, our overall liquidity position may be materially adversely affected.

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

In February 2010, we repurchased $44.1 million principal amount of our outstanding Convertible Notes for $44.4 million.

Mortgage Facilities

We are party to a $42.4 million mortgage facility with respect to certain of our dealership properties that matures on October 1, 2015. The facility bears interest at a defined rate, requires monthly principal and interest payments, and includes the option to extend the term for successive periods of five years up to a maximum term of twenty-five years. In the event we exercise our options to extend the term, the interest rate will be renegotiated at each renewal period. The mortgage facility also contains typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the property. Substantially all of the buildings, improvements, fixtures and personal property of the properties under the mortgage facility are subject to security interests granted to the lender. As of December 31, 2009, $41.4 million was outstanding under this facility.

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). 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.

Interest Rate Swaps

We use interest rate swaps to manage interest rate risk associated with our variable rate floor plan debt. We are party to interest rate swap agreements through January 7, 2011 pursuant to which the LIBOR portion of $300.0 million of our floating rate floor plan debt was fixed at 3.67%. We may terminate these arrangements at any time, subject to the settlement of the then current fair value of the swap arrangements.

Prior to the third quarter of 2009, the swaps were designated as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings and the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affected earnings. During the quarter ended September 30, 2009, we experienced declines in outstanding floor plan debt balances related to certain floor plan lenders due to significant declines in vehicle inventory levels which caused hedged floor plan balances to fall below the notional value of the swap agreements. We elected to de-designate these cash flow hedges on September 30, 2009, and, as a result, recorded a net loss of $1.1 million in floor plan interest expense.

We re-designated $290.0 million of the interest rate swap agreements as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings and the effective portion of the gain or loss on that $290.0 million of the swap agreements is reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Future settlements and changes in the fair value related to the undesignated $10.0 million of the swap agreements will be recorded as realized and unrealized gains/losses within interest expense.

As of December 31, 2009, we used Level 2 inputs to estimate the fair value of the interest rate swap agreements designated as hedging instruments to be a liability of $10.0 million, of which $9.3 million and $0.7 million are recorded in accrued expenses and other long-term liabilities, respectively. We used Level 2 inputs to estimate the fair value of the interest rate swap agreements not designated as hedging instruments as of December 31, 2009 to be a liability of $0.3 million, which is recorded in accrued expenses.

During the year ended December 31, 2009, we recognized a net gain of $3.0 million related to the effective portion of the interest rate swap agreements designated as hedging instruments in accumulated other comprehensive income, and reclassified $10.9 million of the existing derivative losses, including the $1.1 million loss on de-designation, from accumulated other comprehensive income into floor plan interest expense. We expect approximately $8.2 million associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the hedged interest payments become due. During the year ended December 31, 2009, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 0.8%.

PTL Dividends

We own a 9.0% limited partnership interest in Penske Truck Leasing. In 2009 and 2008 we received $20.0 million and $2.7 million of pro rata cash dividends from this investment. We currently expect to continue to receive future dividends from PTL depending on their operating performance.

Operating Leases

We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease substantially all of our facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at our election. We estimate our total rent obligations under these leases including any extension periods we may exercise at our discretion and assuming constant consumer price indices to be $4.8 billion. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of our other lease covenants would give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease.

Sale/Leaseback Arrangements

We have in the past and expect in the future to enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to third-parties and agree to lease those assets back for a certain period of time. Such sales generate proceeds which vary from period to period. In light of the current market conditions, this financing option has become more expensive and thus we may utilize these arrangements less in the near term.

Off-Balance Sheet Arrangements

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties. We rely on subtenants to pay the rent and maintain the property at these locations. In the event the subtenant does not perform as expected, we may not be able to recover amounts owed to us and we could be required to fulfill these obligations. The aggregate rent paid by the tenants on those properties in 2009 was approximately $11.7 million, and, in aggregate, we guarantee or are otherwise liable for approximately $202.5 million of lease payments, including lease payments during available renewal periods.

smart USA

We are subject to purchase commitments pursuant to the smart distribution agreement, which requires us to purchase a number of vehicles to be negotiated on an ongoing basis. In addition, we are potentially subject to a purchase commitment with respect to unsold inventories and other items pursuant to the smart franchise agreement and state franchise laws in the event of franchise terminations.

Cash Flows

Cash and cash equivalents decreased by $3.3 and $4.4 million during the years ended December 31, 2009 and 2007, respectively, and increased by $3.5 million during the year ended December 31, 2008. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was $303.4 million, $404.6 million and $300.5 million during the years ended December 31, 2009, 2008 and 2007, respectively. Cash flows from continuing operating activities includes net income, as adjusted for non-cash items and the effects of changes in working capital.

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. We retain the right to select which, if any, financing source to utilize in connection with the procurement of vehicle inventories. Many vehicle manufacturers provide vehicle financing for the dealers representing their brands, however, it is not a requirement that we utilize this financing. Historically, our floor plan finance source has been based on aggregate pricing considerations.

In accordance with general accounting principles relating to the statement of cash flows, we report all cash flows arising in connection with floor plan notes payable with the manufacturer of a particular new vehicle as an operating activity in our statement of cash flows, and all cash flows arising in connection with floor plan notes payable to a party other than the manufacturer of a particular new vehicle and all floor plan notes payable relating to pre-owned vehicles as a financing activity in our statement of cash flows. Currently, the majority of our non-trade vehicle financing is with other manufacturer captive lenders. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing.

We believe that changes in aggregate floor plan liabilities are typically linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. As a result, we have presented the following reconciliation of cash flow from operating activities as reported in our condensed consolidated statement of cash flows as if all changes in vehicle floor plan were classified as an operating activity for informational purposes:

	Year Ended December 31,		
	2009	2008	2007
Net cash from continuing operating activities as reported	$ 303.4	$ 404.6	$ 300.5
Floor plan notes payable non-trade as reported	(84.1)	(52.8)	188.7
Net cash from continuing operating activities including all floor plan notes payable	$ 219.3	$ 351.8	$ 489.2

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was $81.5 million, $542.0 million and $227.9 million during the years ended December 31, 2009, 2008 and 2007, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures, proceeds from sale-leaseback transactions and net expenditures for acquisitions and other investments. Capital expenditures were $90.3 million, $211.8 million and $194.5 million during the years ended December 31, 2009, 2008 and 2007, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. As of December 31, 2009, we do not have material commitments related to our planned or ongoing capital projects. We currently expect to finance our capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities. Proceeds from sale-leaseback transactions were $2.3 million, $37.4 million and $131.8 million during the years ended December 31, 2009, 2008 and 2007, respectively. Cash used in acquisitions and other investments, net of cash acquired, was $11.5 million, $147.1 million and $180.7 million during the years ended December 31, 2009, 2008 and 2007, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of $5.8 million, $30.7 million and $51.9 million, respectively. The years ended December 31, 2009 and 2007, respectively, include $18.0 and $15.5 million of proceeds relating to other investing activities. We used $220.5 million for other investing activities during the year ended December 31, 2008, including $219.0 million for the acquisition of the 9.0% interest in PTL.

Cash Flows from Continuing Financing Activities

Cash used in continuing financing activities was $212.6 million and $185.8 million during the years ended December 31, 2009 and 2007, respectively and cash provided by continuing financing activities was $109.7 million during the year ended December 31, 2008. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, repurchases of securities, net borrowings or repayments of floor plan notes payable non-trade, payments of deferred financing costs, proceeds from the issuance of common stock and the exercise of stock options, and dividends. We had net repayments of long-term debt of $77.4 million during the year ended December 31, 2009, which included repayments of $60.0 million on our U.S. credit agreement term loan. We had net borrowings of long-term debt of $249.9 million during the year ended December 31, 2008 and net repayments of $348.6 million during the year ended December 31, 2007. The borrowings in the year ended December 31, 2008 included the $219.0 million loan to finance the PTL limited partnership interest acquisition and proceeds relating to a $42.4 million mortgage facility. The repayments in the year ended December 31, 2007 included $314.4 million to redeem our 9.625% Notes. In March 2009, we used $51.4 million to repurchase $68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes. We had net repayments of floor plan notes payable non-trade of $84.1 and $52.8 million during the years ended December 31, 2009 and 2008, respectively, and net borrowings of floor plan notes payable non-trade of $188.7 million during the year ended December 31, 2007. During the years ended December 31, 2009, 2008 and 2007, we received proceeds of $0.3 million, $0.8 million and $2.6 million, respectively, from the exercise of stock options. In 2008, we repurchased 4.015 million shares of common stock for $53.7 million. During the years ended December 31, 2008 and 2007, we also paid $33.9 million and $28.4 million, respectively, of cash dividends to our stockholders. No cash dividends were paid to our stockholders during the year ended December 31, 2009.

Cash Flows from Discontinued Operations

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

Contractual Payment Obligations

The table below sets forth our best estimates as to the amounts and timing of future payments relating to our most significant contractual obligations as of December 31, 2009, except as otherwise noted. The information in the table reflects future unconditional payments and is based upon, among other things, the terms of any relevant agreements. Future events, including acquisitions, divestitures, new or revised operating lease agreements, borrowings or repayments under our credit agreements and our floor plan arrangements, and purchases or refinancing of our securities, could cause actual payments to differ significantly from these amounts.

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Floorplan notes payable(A)	$ 1,196.2	$ 1,196.2	$	$	$
Long-term debt obligations(B)	963.3	12.4	463.2	74.3	413.4
Operating lease commitments	4,795.6	178.5	353.3	349.3	3,914.5
Scheduled interest payments(B)(C)	228.1	41.8	64.8	61.9	59.6
Other liabilities(D)	38.1	1.2		36.9	
	$ 7,221.3	$ 1,430.1	$ 881.3	$ 522.4	$ 4,387.5

(A) Floor plan notes payable are revolving financing arrangements. Payments are generally made as required pursuant to the floor plan borrowing agreements discussed above under Inventory Financing.

(B) Interest and principal repayments under our $306.3 million of 3.5% senior subordinated notes due 2026 are reflected in the table above. While these notes are not due until 2026, the holders may require us to purchase all or a portion of their notes for cash in 2011. This acceleration of ultimate repayment is reflected in the table above. In addition, we repurchased $44.1 million of the 3.5% senior subordinated notes in February 2010, which repurchase is not reflected in this table.

(C) Estimates of future variable

rate interest payments under floorplan notes payable and our credit agreements are excluded due to our inability to estimate changes to interest rates in the future. See Inventory Financing, U.S. Credit Agreement, and U.K. Credit Agreement above for a discussion of such variable rates.

(D) Includes uncertain tax positions and our purchase commitments pursuant to our smart distribution and franchise agreements. Due to the subjective nature of our uncertain tax positions, we are unable to make reasonably reliable estimates of the timing of payments arising in connection with the unrecognized tax benefits, however, as a result of the statute of limitations, we do not expect any of these payments to occur in more than 5 years. We have thus classified this as 3 to 5 years.

Exposure related to our purchase commitments on known smart USA dealer franchise terminations have been classified as Less than 1 year.

We expect that, other than for scheduled payments upon the maturity or termination dates of certain of our debt instruments, the amounts above will be funded through cash flow from operations. In the case of payments upon the maturity or termination dates of our debt instruments, we currently expect to be able to refinance such instruments in the normal course of business or otherwise fund them from cash flows from operations.

Related Party Transactions

Stockholders Agreement

Several of our directors and officers are affiliated with Penske Corporation or related entities. Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 35% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui) own approximately 17% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for one director who is a representative of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2014, upon the mutual consent of the parties, or when either party no longer owns any of our common stock.

Other Related Party Interests and Transactions

Roger S. Penske is also a managing member of Transportation Resource Partners, an organization that invests in transportation-related industries. Richard J. Peters, one of our directors, is a managing director of Transportation Resource Partners and is a director of Penske Corporation. Lucio A. Noto (one of our directors) is an investor in Transportation Resource Partners. One of our directors, Hiroshi Ishikawa, serves as our Executive Vice President International Business Development and serves in a similar capacity for Penske Corporation. Robert H. Kurnick, Jr., our President and a director, is also the President and a director of Penske Corporation.

We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others behalf. These transactions are reviewed periodically by our Audit Committee and reflect the provider s cost or an amount mutually agreed upon by both parties.

We are a 9.0% limited partner of PTL, a leading global transportation services provider. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital. Among other things, the partnership agreement provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests.

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

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Joint Venture Relationships

From time to time, we enter into joint venture relationships in the ordinary course of business, through which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of December 31, 2009, our automotive retail joint venture relationships included:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	87.95%(A)(B)
Edison, New Jersey	Ferrari, Maserati	70.00%(B)
Las Vegas, Nevada	Ferrari, Maserati	50.00%(C)
Munich, Germany	BMW, MINI	50.00%(C)
Frankfurt, Germany	Lexus, Toyota	50.00%(C)
Aachen, Germany	Audi, Lexus, Skoda, Toyota, Volkswagen	50.00%(C)

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor), owns a 12.05% interest in this joint venture, which entitles the Investor to 20% of the joint venture s operating profits. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) Entity is consolidated in our financial statements.

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

In December 2009, we exited from our joint venture investment in Mexico which operates several Toyota franchises resulting in a gain of $0.6 million.

Cyclicality

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

Seasonality

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K.

Effects of Inflation

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

Forward-Looking Statements

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

- our future financial and operating performance, including sales of the smart fortwo;
- future acquisitions;

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- future capital expenditures and share repurchases;
- our ability to obtain cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate dealerships;
- our ability to access the remaining availability under our credit agreements;
- our liquidity, including our ability to refinance our outstanding senior subordinated convertible notes;
- foreign exchange rates;
- 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 under Item 1A. Risk Factors. Important factors that could cause actual results to differ materially from our expectations include those mentioned in Item 1A. Risk Factors such as the following:

- our business and the automotive retail industry in general are susceptible to further or continued adverse economic conditions, including changes in interest rates, foreign exchange rates, consumer demand, consumer confidence, fuel prices and credit availability;
- the number of new and used vehicles sold in our markets;
- automobile manufacturers exercise significant control over our operations, and we depend on them in order to operate our business;
- we depend on the success and popularity of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, such as the current Toyota recalls relating to unintended vehicle acceleration and brake issues, may negatively impact our revenues and profitability;
- the restructuring of the U.S. automotive manufacturers may adversely affect our operations, as well as the automotive sector as a whole;
- we may not be able to satisfy our capital requirements for acquisitions, dealership renovation projects, refinancing of our debt when it becomes due (including our outstanding senior subordinated convertible notes), or financing the purchase of our inventory;
- our failure to meet a manufacturer s consumer satisfaction requirements may adversely affect our ability to acquire new dealerships, our ability to obtain incentive payments from manufacturers and our profitability;
- although we typically purchase vehicles and parts in the local functional currency, changes in foreign exchange rates may impact manufacturers, as many of the component parts of vehicles are manufactured in

foreign markets, which could lead to an increase in our costs which we may not be able to pass on to the consumer;

changes in tax, financial or regulatory rules or requirements;

with respect to PTL, changes in the financial health of its customers, labor strikes or work stoppages by its employees, a reduction in PTL s asset utilization rates and industry competition;

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- substantial competition in automotive sales and services may adversely affect our profitability;
- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel, our business could be adversely affected;
- our business may be adversely affected by import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;
- automobile dealerships are subject to substantial regulation which may adversely affect our profitability;
- if state dealer laws in the U.S. are repealed or weakened our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements;
- non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;
- our distribution of the smart fortwo vehicle is dependent upon the continued availability of and customer demand for the smart fortwo;
- 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 generally and may require that a significant portion of our cash flow be used for debt service;
- we may be involved in legal proceedings that could have a material adverse effect on our business;
- our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency valuations; and
- we are a holding company and, as a result, must rely on the receipt of payments from our subsidiaries, which are subject to limitations, in order to meet our cash needs and service our indebtedness.

In addition:

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

We urge you to carefully consider these risk factors and further information under Item 1A- 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 the Securities and Exchange Commission s rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rates. We are exposed to market risk from changes in interest rates on a significant portion of our outstanding debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR or the Bank of England Base Rate. Based on the amount outstanding under these facilities as of December 31, 2009, a 100 basis point change in interest rates would result in an approximate $2.2 million change to our annual other interest expense. Similarly, amounts outstanding under our floor plan financing arrangements bear interest at a variable rate based on a margin over the prime rate, defined LIBOR, the Finance House Base Rate, or the Euro Interbank Offer Rate. We are currently party to swap agreements pursuant to which a notional $300.0 million of our floating rate floor plan debt was exchanged for fixed rate debt through January 2011. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments, adjusted to exclude the notional value of the hedged swap agreements, during the year ended December 31, 2009, a 100 basis point change in interest rates would result in an approximate $8.8 million change to our annual floor plan interest expense.

We evaluate our exposure to interest rate fluctuations and follow established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to mitigate the effect of interest rate fluctuations on our earnings and cash flows. These policies include:

- the maintenance of our overall debt portfolio with targeted fixed and variable rate components;

- the use of authorized derivative instruments;

- the prohibition of using derivatives for trading or other speculative purposes; and

- the prohibition of highly leveraged derivatives or derivatives which we are unable to reliably value or for which we are unable to obtain a market quotation.

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

Foreign Currency Exchange Rates. As of December 31, 2009, we had dealership operations in the U.K. and Germany. In each of these markets, the local currency is the functional currency. Due to our intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate $352.2 million change to our revenues for the year ended December 31, 2009.

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

Item 8. ***Financial Statements and Supplementary Data***

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are incorporated by reference into this Item 8.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

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Item 9A. ***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, and as discussed in our report, 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 fourth quarter of 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s and our auditors reports on our internal control over financial reporting are included with our financial statements filed as part of this Annual Report on Form 10-K.

Item 9B. ***Other Information***

Not applicable.

PART III

Except as set forth below, the information required by Items 10 through 14 is included in the Company s definitive proxy statement under the captions Election of Directors, Executive Officers, Compensation Committee Report, Compensation Discussion and Analysis, Executive and Director Compensation, Security Ownership of Certain Beneficial Owners and Management, Independent Auditing Firms, Related Party Transactions, Other Matters and Corporate Governance. Such information is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides details regarding the shares of common stock issuable upon the exercise of outstanding options, warrants and rights granted under our equity compensation plans (including individual equity compensation arrangements) as of December 31, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	290,668	9.29	2,088,646
Equity compensation plans not approved by security holders			
Total	290,668	9.29	2,088,646

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(1) Financial Statements

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

(2) Financial Statement Schedule Schedule II Valuation and Qualifying Accounts following the Consolidated Financial Statements is filed as part of this Annual Report on Form 10-K.

(3) Exhibits See the Index of Exhibits following the signature page for the exhibits to this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on February 24, 2010.

Penske Automotive Group, Inc.

By: /s/ Roger S. Penske

Roger S. Penske
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Roger S. Penske	Chairman of the Board and	February 24, 2010
Roger S. Penske	Chief Executive Officer (Principal Executive Officer)	
/s/ Robert T. O Shaughnessy	Executive Vice President Finance	February 24, 2010
Robert T. O Shaughnessy	and Chief Financial Officer (Principal Financial and Accounting Officer)	
/s/ John D. Barr	Director	February 24, 2010
John D. Barr		
/s/ Michael R. Eisenson	Director	February 24, 2010
Michael R. Eisenson		
/s/ Hiroshi Ishikawa	Director	February 24, 2010
Hiroshi Ishikawa		
/s/ Robert H. Kurnick, Jr.	Director	February 24, 2010
Robert H. Kurnick, Jr.		
/s/ William J. Lovejoy	Director	February 24, 2010
William J. Lovejoy		
/s/ Kimberly J. McWaters	Director	February 24, 2010

Kimberly J. McWaters		
/s/ Lucio A. Noto	Director	February 24, 2010
Lucio A. Noto		
/s/ Richard J. Peters	Director	February 24, 2010
Richard J. Peters		
/s/ Ronald G. Steinhart	Director	February 24, 2010
Ronald G. Steinhart		
/s/ H. Brian Thompson	Director	February 24, 2010
H. Brian Thompson		

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Each management contract or compensatory plan or arrangement is identified with an asterisk.

3.1	Certificate of Incorporation (incorporated by reference to exhibit 3.2 to our Form 8-K filed on July 2, 2007).
3.2	Bylaws (incorporated by reference to exhibit 3.1 to our Form 8-K filed on December 7, 2007).
4.1.1	Indenture regarding our 3.5% senior subordinated convertible notes due 2026, dated January 31, 2006, by and among us, as Issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed February 2, 2006).
4.1.2	Amended and Restated Supplemental Indenture regarding our 3.5% senior subordinated convertible notes due 2026 dated as of February 19, 2010, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., as trustee.
4.2.1	Indenture regarding our 7.75% senior subordinated notes due 2016 dated December 7, 2006, by and among us as Issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our current report on Form 8-K filed on December 12, 2006).
4.2.2	Amended and Restated Supplemental Indenture regarding 7.75% Senior Subordinated Notes due 2016 dated February 19, 2010, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and Bank of New York Trust Company, N.A., as trustee.
4.3.1	Third Amended and Restated Credit Agreement, dated as of October 30, 2008, among us, DCFS USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.4 our form 10-Q filed November 5, 2008).
4.3.2	First Amendment dated October 30, 2009 to Amended and Restated Credit Agreement dated as of October 30, 2008 among the Company, Toyota Motor Credit Corporation and DCFS USA LLC, as agent (incorporated by reference to exhibit 4.1 to the quarterly report on Form 10-Q filed November 4, 2009).
4.3.3	Second Amended and Restated Security Agreement dated as of September 8, 2004 among us, DaimlerChrysler Financial Services Americas LLC and Toyota Motor Credit Corporation (incorporated by reference to Exhibit 10.2 to our September 8, 2004 Form 8-K).
4.4.1	Multi-Option Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and The Royal Bank of Scotland, plc, as agent for National Westminster Bank Plc. (RBS) (incorporated by reference to exhibit 4.1 to our Form 8-K filed on September 5, 2006).
4.4.2	Amendment dated September 29, 2008 to Multi-Option Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.2 of our October 1, 2008 Form 8-K).
4.4.3	Supplemental Agreement dated September 4, 2009 to Multi-Option Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to Exhibit 4.1 filed on September 8, 2009 on Form 8-K).
4.4.4	Fixed Rate Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.2 to our Form 8-K filed on September 5, 2006).
4.4.5	Amendment dated September 29, 2008 to Fixed Rate Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.3 of our October 1, 2008 Form 8-K).
4.4.6	Supplemental Agreement dated September 4, 2009 to Fixed Rate Credit Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to Exhibit 4.2 filed on September 8, 2009 on Form 8-K).
4.4.7	

	Seasonally Adjusted Overdraft Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.3 to our Form 8-K filed on September 5, 2006).
4.4.8	Amendment dated September 29, 2008 to Seasonally Adjusted Overdraft Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.4 of our October 1, 2008 Form 8-K).
10.1	Form of Dealer Agreement with Acura Automobile Division, American Honda Motor Co., Inc. (incorporated by reference to exhibit 10.2.15 to our 2001 Form 10-K).
10.2	Form of Dealer Agreement with Audi of America, Inc., a division of Volkswagen of America, Inc. (incorporated by reference to exhibit10.2.14 to our 2001 Form 10-K).
10.3	Form of Car Center Agreement with BMW of North America, Inc. (incorporated by reference to exhibit 10.2.5 to our 2001 Form 10-K).
10.4	Form of SAV Center Agreement with BMW of North America, Inc. (incorporated by reference to exhibit 10.2.6 to our 2001 Form 10-K).
10.5	Form of Dealership Agreement with BMW (GB) Limited (incorporated by reference to exhibit 10.4 to our 2007 Form 10-K).
10.6	Form of Dealer Agreement with Honda Automobile Division, American Honda Motor Co. (incorporated by reference to exhibit 10.2.3 to our 2001 Form 10-K).
10.7	Form of Dealer Agreement with Lexus, a division of Toyota Motor Sales U.S.A., Inc. (incorporated by reference to exhibit 10.2.4 to our 2001 Form 10-K).

10.8	Form of Mercedes-Benz USA, Inc. Passenger and Car Retailer Agreement (incorporated by reference to exhibit 10.2.11 to our Form 10-Q for the quarter ended March 31, 2000).
10.9	Form of Mercedes-Benz USA, Inc. Light Truck Retailer Agreement (incorporated by reference to exhibit 10.2.12 to our Form 10-Q for the quarter ended March 31, 2000).
10.10	Form of Dealer Agreement with MINI Division of BMW of North America, LLC.
10.11	Form of Dealer Agreement with Toyota Motor Sales, U.S.A., Inc. (incorporated by reference to exhibit 10.2.7 to our 2001 Form 10-K).
10.12	Form of smart USA Distribution LLC Dealer Agreement.
10.13**	Distributor Agreement dated October 31, 2006 between smart GmbH and smart USA Distributor LLC (incorporated by reference to exhibit 10.8 to our 2007 Form 10-K)
*10.14	Amended and Restated Penske Automotive Group, Inc. 2002 Equity Compensation Plan (incorporated by reference to exhibit 10.9 to our 2007 Form 10-K).
*10.15	Form of Restricted Stock Agreement (incorporated by reference to exhibit 10.3 to our Form 10-Q for the quarter ended June 30, 2003).
*10.16	Amended and Restated Penske Automotive Group, Inc. Non-Employee Director Compensation Plan (incorporated by reference to exhibit 10.11 to our 2007 Form 10-K).
*10.17	Penske Automotive Group, Inc. Amended and Restated Management Incentive Plan (incorporated by reference to exhibit 10.26 to our January 21, 2010 Form S-1).
10.18.1	First Amended and Restated Limited Liability Company Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.3 to our Form 10-Q filed May 15, 2003).
10.18.2	Letter Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.5 to our Form 10-Q filed May 15, 2003).
10.19	Registration Rights Agreement among us and Penske Automotive Holdings Corp. dated as of December 22, 2000 (incorporated by reference to exhibit 10.26.1 to our Form 10-K filed March 29, 2001).
10.20	Second Amended and Restated Registration Rights Agreement among us, Mitsui & Co., Ltd. and Mitsui & Co. (U.S.A.), Inc. dated as of March 26, 2004 (incorporated by reference to the exhibit 10.2 to our March 26, 2004 Form 8-K).
10.21	Purchase Agreement by and between Mitsui & Co., Ltd., Mitsui & Co. (U.S.A.), Inc., International Motor Cars Group I, L.L.C., International Motor Cars Group II, L.L.C., Penske Corporation, Penske Automotive Holdings Corp, and Penske Automotive Group, Inc. (incorporated by reference to exhibit 10.1 to our Form 8-K filed on February 17, 2004).
10.22	Stockholders Agreement among International Motor Cars Group II, L.L.C., Penske Automotive Holdings Corp., Penske Corporation and Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. dated as of March 26, 2004 (incorporated by reference to exhibit 10.1 to our March 26, 2004 Form 8-K).
10.23	VMC Holding Corporation Stockholders Agreement dated April 28, 2005 among VMC Holding Corporation, U.S., Transportation Resource Partners, LP., Penske Truck Leasing Co. LLP., and Opus Ventures General Partners Limited (incorporated by reference to exhibit 10.1 to our Form 10-Q filed on May 5, 2005).
10.24	Management Services Agreement dated April 28, 2005 among VMC Acquisition Corporation, Transportation Resource Advisors LLC., Penske Truck Leasing Co. L.P. and Opus Ventures General Partner Limited (incorporated by reference to exhibit 10.1 to our Form 10-Q filed on May 5, 2005).
10.25	Joint Insurance Agreement dated August 7, 2006 between us and Penske Corporation (incorporated by reference to exhibit 10.1 to our Form 10-Q filed August 9, 2006).
10.26	

	Trade Name and Trademark Agreement dated May 6, 2008 between us and Penske System, Inc. (incorporated by reference to exhibit 10 to our Form 10-Q filed May 8, 2008).
10.27	Purchase and Sale Agreement dated June 26, 2008 by and among General Electric Credit Corporation of Tennessee, Logistics Holding Corp., RTLC Acquisition Corp., NTFC Capital Corporation, Penske Truck Leasing Corporation, PTLC Holdings Co., LLC, PTLC2 Holdings Co., LLC, Penske Automotive Group, Inc. and Penske Truck Leasing Co., L.P. (incorporated by reference to exhibit 10.1 to our July 2, 2008 Form 8-K).
10.28	Third Amended and Restated Limited Partnership Agreement of Penske Truck Leasing Co., L.P. dated as of March 26, 2009 (incorporated by reference to exhibit 10.1 to our Form 10-Q filed May 8, 2009).
10.29	Rights Agreement dated June 26, 2008 by and among PTLC Holdings Co., LLC, PTLC2 Holdings Co., LLC, Penske Truck Leasing Corporation and Penske Automotive Group, Inc. (incorporated by reference to exhibit 10.4 to our July 2, 2008 Form 8-K).
10.30.1	Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan dated as of March 3, 2009 (incorporated by reference to exhibit 10.26 to our Form 10-K filed March 11, 2009).
10.30.2	Amendment No. 1 dated December 12, 2009 Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan (incorporated by reference to exhibit 10.26 to our January 21, 2010 Form S-1).

*10.31	Amended and Restated Stock Option Plan dated as of December 10, 2003(incorporated by reference to exhibit 10.22 to our 2003 Form 10-K filed March 15, 2004).
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiary List.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of KPMG Audit Plc.
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification.
32	Section 1350 Certification.

* Compensatory plans or contracts

** Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
PENSKE AUTOMOTIVE GROUP, INC
As of December 31, 2009 and 2008 and For the Years Ended
December 31, 2009, 2008 and 2007

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Penske Automotive Group, Inc. and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance to the Company s management and board of directors that the Company s internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework.* Based on our assessment we believe that, as of December 31, 2009, the Company s internal control over financial reporting is effective based on those criteria.

The Company s independent registered public accounting firm that audited the consolidated financial statements included in the Company s Annual Report on Form 10-K has issued an audit report on the effectiveness of the Company s internal control over financial reporting. This report appears on page F-3.

Penske Automotive Group, Inc.

February 24, 2010

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of UAG UK Holdings Limited and subsidiaries (the UAG UK) is responsible for establishing and maintaining adequate internal control over financial reporting. UAG UK s internal control system was designed to provide reasonable assurance to the UAG UK s management and board of directors that the UAG UK s internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the UAG UK s internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework.* Based on our assessment we believe that, as of December 31, 2009, the UAG UK s internal control over financial reporting is effective based on those criteria.

UAG UK s independent registered public accounting firm that audited the consolidated financial statements of UAG UK (not included herein) has issued an audit report on the effectiveness of the UAG UK s internal control over financial reporting. This report appears on page F-4.

UAG UK Holdings Limited

February 24, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Penske Automotive Group, Inc.
Bloomfield Hills, Michigan

We have audited the accompanying consolidated balance sheets of Penske Automotive Group, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audits. We did not audit the financial statements or the effectiveness of internal control over financial reporting of UAG UK Holdings Limited and subsidiaries (a consolidated subsidiary), which statements reflect total assets constituting 31% and 29% of consolidated total assets as of December 31, 2009 and 2008, respectively, and total revenues constituting 36%, 35%, and 36% of consolidated total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. Those financial statements and the effectiveness of UAG UK Holdings Limited and subsidiaries internal control over financial reporting were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAG UK Holdings Limited and subsidiaries and to the effectiveness of UAG UK Holdings Limited and subsidiaries internal control over financial reporting, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits and (as to the amounts included for UAG UK Holdings Limited and subsidiaries) the report of the other auditors, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
Detroit, Michigan
February 24, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
UAG UK Holdings Limited:

We have audited the accompanying consolidated balance sheets of UAG UK Holdings Limited and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedule. We also have audited UAG UK Holdings Limited s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with US generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Audit Plc

Birmingham, United Kingdom
February 24, 2010

PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 13,769	$ 17,108
Accounts receivable, net of allowance for doubtful accounts of $1,694 and $2,081, as of December 31, 2009 and 2008, respectively	322,598	294,230
Inventories	1,306,532	1,586,914
Other current assets	95,560	88,437
Assets held for sale	5,005	20,574
Total current assets	1,743,464	2,007,263
Property and equipment, net	726,835	662,898
Goodwill	810,323	776,683
Franchise value	201,756	196,358
Equity method investments	295,473	296,487
Other long-term assets	18,156	22,460
Total assets	$ 3,796,007	$ 3,962,149
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 772,926	$ 961,993
Floor plan notes payable non-trade	423,316	507,404
Accounts payable	190,325	178,994
Accrued expenses	227,725	196,704
Current portion of long-term debt	12,442	11,305
Liabilities held for sale	3,083	24,289
Total current liabilities	1,629,817	1,880,689
Long-term debt	933,966	1,052,060
Deferred tax liability	157,500	106,590
Other long-term liabilities	128,685	114,389
Total liabilities	2,849,968	3,153,728
Commitments and contingent liabilities		
Equity		
Penske Automotive Group stockholders equity:		
Preferred Stock, $0.0001 par value; 100 shares authorized; none issued and outstanding		
Common Stock, $0.0001 par value, 240,000 shares authorized; 91,618 shares issued and outstanding at December 31, 2009; 91,431 shares issued and outstanding at December 31, 2008	9	9
Non-voting Common Stock, $0.0001 par value, 7,125 shares authorized; none issued and outstanding		

Class C Common Stock, $0.0001 par value, 20,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	737,198	731,037
Retained earnings	196,205	119,744
Accumulated other comprehensive income (loss)	9,049	(45,989)
Total Penske Automotive Group stockholders equity	942,461	804,801
Non-controlling interest	3,578	3,620
Total equity	946,039	808,421
Total liabilities and equity	$ 3,796,007	$ 3,962,149

See Notes to Consolidated Financial Statements.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Revenue:			
New vehicle	$ 4,662,418	$ 5,935,857	$ 6,929,511
Used vehicle	2,600,691	2,848,053	3,097,795
Finance and insurance, net	222,672	259,255	286,294
Service and parts	1,321,580	1,403,545	1,392,286
Distribution	179,159	348,809	
Fleet and wholesale	536,585	841,617	1,075,831
Total revenues	9,523,105	11,637,136	12,781,717
Cost of sales:			
New vehicle	4,286,224	5,449,476	6,346,555
Used vehicle	2,376,358	2,634,607	2,855,836
Service and parts	593,463	623,032	614,105
Distribution	161,000	294,535	
Fleet and wholesale	523,749	845,282	1,068,692
Total cost of sales	7,940,794	9,846,932	10,885,188
Gross profit	1,582,311	1,790,204	1,896,529
Selling, general and administrative expenses	1,318,980	1,493,903	1,507,721
Intangible impairments		643,459	
Depreciation and amortization	54,234	53,877	50,007
Operating income (loss)	209,097	(401,035)	338,801
Floor plan interest expense	(35,662)	(64,188)	(73,104)
Other interest expense	(55,201)	(54,504)	(55,266)
Debt discount amortization	(13,043)	(13,984)	(12,896)
Equity in earnings of affiliates	13,808	16,513	4,084
Gain on debt repurchase	10,429		
Loss on debt redemption			(18,634)
Income (loss) from continuing operations before income taxes	129,428	(517,198)	182,985
Income taxes	(45,386)	105,741	(61,783)
Income (loss) from continuing operations	84,042	(411,457)	121,202
(Loss) income from discontinued operations, net of tax	(7,122)	(7,446)	1,031
Net income (loss)	76,920	(418,903)	122,233
Less: Income attributable to non-controlling interests	459	1,133	1,972
Net income (loss) attributable to Penske Automotive Group common stockholders	$ 76,461	$ (420,036)	$ 120,261

Basic earnings per share attributable to Penske Automotive Group common stockholders:						
Continuing operations	$	0.91	$	(4.39)	$	1.26
Discontinued operations		(0.08)		(0.08)		0.01
Net income (loss)	$	0.84	$	(4.47)	$	1.27
Shares used in determining basic earnings per share		91,557		93,958		94,854
Diluted earnings per share attributable to Penske Automotive Group common stockholders:						
Continuing operations	$	0.91	$	(4.39)	$	1.25
Discontinued operations		(0.08)		(0.08)		0.01
Net income (loss)	$	0.83	$	(4.47)	$	1.27
Shares used in determining diluted earnings per share		91,653		93,958		95,046
Amounts attributable to Penske Automotive Group common stockholders:						
Income (loss) from continuing operations	$	84,042	$	(411,457)	$	121,202
Less: Income attributable to non-controlling interests		459		1,133		1,972
Income (loss) from continuing operations, net of tax		83,583		(412,590)		119,230
(Loss) income from discontinued operations, net of tax		(7,122)		(7,446)		1,031
Net income (loss)	$	76,461	$	(420,036)	$	120,261
Cash dividends per share	$		$	0.36	$	0.30

See Notes to Consolidated Financial Statements.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

	Voting and Non-voting Common Stock		Additional		Accumulated Other		Total Stockholders Equity			Comprehensive In		
	Issued Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity	Attributable to Penske Automotive Group	Non-controlling Interest	
2007	94,468,013	$ 9	$ 811,887	$ 486,298	$ 79,379	$ (45,233)	$ 1,332,340	$ 15,031	$ 1,347,371			
of nting ment				(4,430)			(4,430)		(4,430)			
tion f	346,265		7,721				7,721		7,721			
tax	205,485		2,614				2,614		2,614			
				(28,447)			(28,447)		(28,447)			
ns to lling								(3,230)	(3,230)			
lling								465	465			
					12,745		12,745		12,745	$ 12,745	$	$
					7,864		7,864	1,030	8,894	7,864		
t of ock			(45,233)			45,233						
e				120,261			120,261	1,972	122,233	120,261	1,972	
31,	95,019,763	9	776,989	573,682	99,988		1,450,668	15,268	1,465,936	$ 140,870	$ 1,972	$
tion	365,825		6,884				6,884		6,884			
f	60,336		825				825		825			

tax $245 e of tock	(4,015,143)		(53,661)				(53,661)		(53,661)			
				(33,902)			(33,902)		(33,902)			
ns to olling								(1,565)	(1,565)			
of m lling								(12,389)	(12,389)			
olling								402	402			
					(134,087)		(134,087)		(134,087)	$ (134,087)	$	$
					(11,890)		(11,890)	771	(11,119)	(11,890)		
me				(420,036)			(420,036)	1,133	(418,903)	(420,036)	1,133	
31,	91,430,781	9	731,037	119,744	(45,989)		804,801	3,620	808,421	$ (566,013)	$ 1,133	$
tion f	153,757		5,718				5,718		5,718			
tax $128	33,208		349				349		349			
ns to olling								(565)	(565)			
olling			94				94	64	158			
					47,920		47,920		47,920	$ 47,920	$	$
					7,118		7,118		7,118	7,118		
e				76,461			76,461	459	76,920	76,461	459	
31,	91,617,746	$ 9	$ 737,198	$ 196,205	$ 9,049	$	$ 942,461	$ 3,578	$ 946,039	$ 131,499	$ 459	$

See Notes to Consolidated Financial Statements.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2009	2008	2007
	(In thousands)		
Operating Activities:			
Net income (loss)	$ 76,920	$ (418,903)	$ 122,233
Adjustments to reconcile net income (loss) to net cash from continuing operating activities:			
Intangible impairments		643,459	
Depreciation and amortization	54,234	53,877	50,007
Debt discount amortization	13,043	13,984	12,896
Undistributed earnings of equity method investments	(13,808)	(13,821)	(4,084)
Loss (income) from discontinued operations, net of tax	7,122	7,446	(1,031)
Loss on debt redemption			18,634
Gain on debt repurchase	(10,733)		
Deferred income taxes	45,699	(106,431)	24,782
Changes in operating assets and liabilities:			
Accounts receivable	(27,101)	145,235	21,947
Inventories	297,803	145,278	(144,803)
Floor plan notes payable	(189,107)	(2,558)	208,238
Accounts payable and accrued expenses	37,171	(121,823)	(33,583)
Other	12,201	58,885	25,258
Net cash from continuing operating activities	303,444	404,628	300,494
Investing Activities:			
Purchase of equipment and improvements	(90,315)	(211,832)	(194,492)
Proceeds from sale-leaseback transactions	2,338	37,422	131,793
Dealership acquisitions, net, including repayment of sellers floor plan notes payable of $5,784, $30,711 and $51,904, respectively	(11,476)	(147,089)	(180,721)
Purchase of Penske Truck Leasing Co., L.P. partnership interest		(219,000)	
Other	17,994	(1,500)	15,518
Net cash from continuing investing activities	(81,459)	(541,999)	(227,902)
Financing Activities:			
Proceeds from borrowings under U.S. credit agreement revolving credit line	409,900	550,900	426,900
Repayments under U.S. credit agreement revolving credit line	(409,900)	(550,900)	(426,900)
Proceeds from U.S. credit agreement term loan		219,000	
Repayments under U.S. credit agreement term loan	(60,000)	(10,000)	
Repurchase 3.5% senior subordinated convertible notes	(51,424)		
Proceeds from mortgage facility		42,400	
Net repayments of other long-term debt	(17,402)	(1,520)	(34,190)
Net (repayments) borrowings of floor plan notes payable non-trade	(84,088)	(52,783)	188,692
Payment of deferred financing costs		(661)	
Redemption 9 5/8% senior subordinated debt			(314,439)

Proceeds from exercises of options, including excess tax benefit	349	821	2,614
Repurchases of common stock		(53,661)	
Dividends		(33,902)	(28,447)
Net cash from continuing financing activities	(212,565)	109,694	(185,770)
Discontinued operations:			
Net cash from discontinued operating activities	(5,596)	(2,938)	17,283
Net cash from discontinued investing activities	2,065	64,472	69,697
Net cash from discontinued financing activities	(9,228)	(30,365)	21,751
Net cash from discontinued operations	(12,759)	31,169	108,731
Net change in cash and cash equivalents	(3,339)	3,492	(4,447)
Cash and cash equivalents, beginning of period	17,108	13,616	18,063
Cash and cash equivalents, end of period	$ 13,769	$ 17,108	$ 13,616
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	$ 92,804	$ 125,184	$ 138,941
Income taxes	18,251	8,862	35,054
Seller financed/assumed debt		4,728	2,992

See Notes to Consolidated Financial Statements.

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

1. Organization and Summary of Significant Accounting Policies

Business Overview and Concentrations

Penske Automotive Group, Inc. (the Company) is engaged in the sale of new and used motor vehicles and related products and services, including vehicle service, parts, collision repair, finance and lease contracts, third-party insurance products and other aftermarket products. The Company operates dealerships under franchise agreements with a number of automotive manufacturers. In accordance with individual franchise agreements, each dealership is subject to certain rights and restrictions typical of the industry. The ability of the manufacturers to influence the operations of the dealerships, or the loss of a significant number of franchise agreements, could have a material impact on the Company s results of operations, financial position and cash flows. For the year ended December 31, 2009, BMW/MINI franchises accounted for 21% of the Company s total revenues, Toyota/Lexus franchises accounted for 19%, Honda/Acura franchises accounted for 14%, and Daimler and Audi franchises each accounted for 10%. No other manufacturers franchises accounted for more than 10% of our total revenue. At December 31, 2009 and 2008, the Company had receivables from manufacturers of $80,661 and $72,301, respectively. In addition, a large portion of the Company s contracts in transit, which are included in accounts receivable, are due from manufacturers captive finance subsidiaries. In 2007, the Company established a wholly-owned subsidiary, smart USA Distributor LLC (smart USA), which is the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico.

Basis of Presentation

Results for the year ended December 31, 2009 include a $10,429 pre-tax gain relating to the repurchase of $68,740 aggregate principal amount of the Company s 3.5% senior subordinated convertible notes. Results for the year ended December 31, 2008 include pre-tax charges of $661,880, including $643,459 relating to pre-tax goodwill and franchise asset impairments, as well as, an additional $18,421 of pre-tax dealership consolidation and relocation costs, severance costs, other asset impairment charges, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike. Results for the year ended December 31, 2007 include pre-tax charges of $18,634 relating to the redemption of $300.0 million aggregate principal amount of 9.625% Senior Subordinated Notes and $6,267 of pre-tax impairment charges.

The consolidated financial statements include all majority-owned subsidiaries. Investments in affiliated companies, representing an ownership interest in the voting stock of the affiliate of between 20% and 50% or an investment in a limited partnership or a limited liability corporation for which the Company s investment is more than minor, are stated at cost of acquisition plus the Company s equity in undistributed net earnings since acquisition. All intercompany accounts and transactions have been eliminated in consolidation. The Company evaluated subsequent events through February 24, 2010, the date the consolidated financial statements were filed with the SEC.

The consolidated financial statements have been adjusted for entities that have been treated as discontinued operations through December 31, 2009 in accordance with general accounting principles.

In June 2008, the Company acquired a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider, from subsidiaries of General Electric Capital Corporation in exchange for $219,000. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management.

Reclassification

The 2008 balance sheet has been reclassified to conform to current year presentation.

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

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.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments that have an original maturity of three months or less at the date of purchase.

Contracts in Transit

Contracts in transit represent receivables from unaffiliated finance companies relating to the sale of customers installment sales contracts arising in connection with the sale of a vehicle by us. Contracts in transit, included in accounts receivable, net in the Company s consolidated balance sheets, amounted to $120,619 and $105,902 as of December 31, 2009 and 2008, respectively.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost for new and used vehicle inventories is determined using the specific identification method. Cost for parts and accessories are based on factory list prices.

Property and Equipment

Property and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. Useful lives for purposes of computing depreciation for assets, other than leasehold improvements, range between 3 and 15 years. Leasehold improvements and equipment under capital lease are depreciated over the shorter of the term of the lease or the estimated useful life of the asset, not to exceed 40 years.

Expenditures relating to recurring repair and maintenance are expensed as incurred. Expenditures that increase the useful life or substantially increase the serviceability of an existing asset are capitalized.

When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet, with any resulting gain or loss being reflected in income.

Income Taxes

Tax regulations may require items to be included in our tax return at different times than those items are reflected in our financial statements. Some of the differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as the timing of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that will be used as a tax deduction or credit in our tax return in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax return that have not yet been recognized as an expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not more likely than not to allow for the use of the deduction or credit.

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (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 business combinations. The Company believes the franchise values of its dealerships have an indefinite useful life based on the following facts:

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

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

Certain franchise agreement terms are indefinite;

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

The Company s history shows that manufacturers have not terminated our franchise agreements.

Impairment Testing

Franchise value impairment is assessed as of October 1 every year and upon the occurrence of an indicator of impairment through a comparison of its carrying amount and estimated fair value. An indicator of impairment exists if the carrying value of a franchise exceeds its estimated fair value, and an impairment loss may be recognized up to that excess. The fair value of franchise value is determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, and the Company s cost of capital. The Company also evaluates its franchise agreements in connection with the annual impairment testing to determine whether events and circumstances continue to support its assessment that the franchise agreements have an indefinite life. As discussed in Note 7, the Company determined that the carrying value as of December 31, 2008 relating to certain of its franchise agreements was impaired and recorded a pre-tax non-cash impairment charge of $37,110.

Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. The Company has determined that the dealerships in each of its operating segments within the Retail reportable segment, which are organized by geography, are components that are aggregated into five reporting units as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). Accordingly, our operating segments are also considered our reporting units for the purpose of goodwill impairment testing relating to the Company s Retail reportable segment. There is no goodwill recorded in the Distribution or PAG Investments reportable segments. An indicator of goodwill impairment exists if the carrying amount of the reporting unit, including goodwill, is determined to exceed the estimated fair value. The fair value of goodwill is determined using a discounted cash flow approach, which includes assumptions that include revenue and profitability growth, franchise profit margins, residual values and the Company s cost of capital. If an indication of goodwill impairment exists, an analysis reflecting the allocation of the fair value of the reporting unit to all assets and liabilities, including previously unrecognized intangible assets, is performed. The impairment is measured by comparing the implied fair value of the reporting unit goodwill with its carrying amount and an impairment loss may be recognized up to that excess. As discussed in Note 7, the Company determined that the carrying value of goodwill as of December 31, 2008 relating to certain reporting units was impaired and recorded a pre-tax non-cash impairment charge of $606,349.

Investments

In 2009, investments included investments in businesses accounted for under the equity method. In 2008 and 2007, investments also included marketable securities. A majority of the Company s investments are in joint venture relationships. Such joint venture relationships are accounted for under the equity method, pursuant to which the Company records its proportionate share of the joint ventures income each period. In December 2009, the Company exited from its joint venture investment in Mexico, which resulted in a gain of $581. In June 2008, the Company acquired the 9.0% limited partnership interest in PTL for $219,000 from GE Capital.

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

Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, profit margins, residual values and the Company s 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. During 2007, the Company recorded an adjustment to the carrying value of an investment to recognize an other than temporary impairment of $3,360. As a result of continued deterioration in the value of the investment, the Company recorded an additional other than temporary impairment charge of $506 during 2008.

Foreign Currency Translation

For all of the Company s foreign operations, the functional currency is the local currency. The revenue and expense accounts of the Company s foreign operations are translated into U.S. dollars using the average exchange rates that prevailed during the period. Assets and liabilities of foreign operations are translated into U.S. dollars using period end exchange rates. Cumulative translation adjustments relating to foreign functional currency assets and liabilities are recorded in accumulated other comprehensive income (loss), a separate component of equity.

Fair Value of Financial Instruments

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

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
7.75% Senior Subordinated Notes due 2016	$ 375,000	$ 352,688	$ 375,000	$ 150,938
3.5% Senior Subordinated Convertible Notes due 2026	289,344	306,833	339,128	206,250

Revenue Recognition

Vehicle, Parts and Service Sales

The Company records revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles.

Finance and Insurance Sales

Subsequent to the sale of a vehicle to a customer, the Company sells its installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. The Company receives 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. The Company also receives 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 the Company received may be charged back based on the terms of the contracts. The revenue the Company records relating to these transactions is net of an estimate of the amount of chargebacks the Company will be required to pay. The Company s estimate is based upon the Company s 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 $19,263 and $20,420 as of December 31, 2009 and 2008, respectively. Changes in reserve estimates relate primarily to a decrease in current period revenues.

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Defined Contribution Plans

The Company sponsors a number of defined contribution plans covering a significant majority of the Company s employees. Company contributions to such plans are discretionary and are based on the level of compensation and contributions by plan participants. The Company suspended its 2009 contributions to its U.S. 401(K) plan and intends to reinstate the matching contributions relating to employees 2010 contributions. The Company incurred expense of $5,932, $10,424 and $11,053 relating to such plans during the years ended December 31, 2009, 2008 and 2007, respectively.

Advertising

Advertising costs are expensed as incurred or when such advertising takes place. The Company incurred net advertising costs of $62,970, $80,952 and $86,864 during the years ended December 31, 2009, 2008 and 2007, respectively. Qualified advertising expenditures reimbursed by manufacturers, which are treated as a reduction of advertising expense, were $9,704, $7,693 and $15,524 during the years ended December 31, 2009, 2008 and 2007, respectively.

Self Insurance

We retain risk relating to certain of our general liability insurance, workers compensation insurance, auto physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance, and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above such pre-determined loss limits are paid by third-party insurance carriers. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors.

Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for the dilutive effect of stock options. For the year ended December 31, 2008, no stock options were included in the computation of diluted loss per share because the Company reported a net loss from continuing operations attributable to Penske Automotive Group common stockholders and the effect of their inclusion would be anti-dilutive. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the years ended December 31, 2009, 2008 and 2007 follows:

	Year Ended December 31,		
	2009	**2008**	**2007**
Weighted average number of common shares outstanding	91,557	93,958	94,854
Effect of non-participatory equity compensation	96		192
Weighted average number of common shares outstanding, including effect of dilutive securities	91,653	93,958	95,046

There were no anti-dilutive stock options outstanding during the years ended December 31, 2009 or 2007. In addition, the Company has senior subordinated convertible notes outstanding which, under certain circumstances discussed in Note 9, may be converted to voting common stock. As of December 31, 2009, 2008, and 2007, no shares related to the senior subordinated convertible notes were included in the calculation of diluted earnings per share because the effect of such securities was anti-dilutive.

Hedging

General accounting principles relating to derivative instruments and hedging activities require all derivatives, whether designated in hedging relationships or not, to be recorded on the balance sheet at fair value. These accounting principles also define requirements for designation and documentation of hedging relationships, as well as ongoing effectiveness assessments, which must be met in order to qualify for hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recorded in earnings immediately. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recorded in earnings. If the derivative is designated in a cash-flow hedge, effective changes in the fair value of the derivative are recorded in accumulated other comprehensive income (loss), a separate component of equity, and recorded in the income statement only when the hedged item affects earnings. Changes in the fair value of the derivative attributable to hedge ineffectiveness are recorded in earnings immediately.

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Stock-Based Compensation

General accounting principles relating to share-based payments require the Company to record compensation expense for all awards based on their grant-date fair value. The Company s share-based payments have generally been in the form of non-vested shares, the fair value of which are measured as if they were vested and issued on the grant date.

New Accounting Pronouncements

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

2. Equity Method Investees

In December 2009, the Company exited from its joint venture investment in Mexico which operates several Toyota franchises resulting in a gain of $581.

In June 2008, the Company acquired the 9.0% limited partnership interest in PTL for $219,000.

The Company s other investments in companies that are accounted for under the equity method consist of the following: the Jacobs Group (50%), the Nix Group (50%), the Reisacher Group (50%), Penske Wynn Ferrari Maserati (50%), Max Cycles (50%), QEK Global Solutions (22.5%), Cycle Express, LP (9.4%), Innovative Media (45%), and Fleetwash, LLC (7%). All of these operations except QEK, Fleetwash, Cycle Express, Max Cycles, and Innovative Media are engaged in the sale and servicing of automobiles. QEK is an automotive fleet management company, Fleetwash provides vehicle fleet washing services, Cycle Express provides auction services to the motorcycle, ATV and other recreational vehicle market, Max Cycles is engaged in the sale and servicing of BMW motorcycles, and Innovative Media provides dealership graphics. The Company s investment in entities accounted for under the equity method amounted to $295,473 and $296,487 at December 31, 2009 and 2008, respectively.

The combined results of operations and financial position of the Company s equity basis investments are summarized as follows:

Condensed income statement information:

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenues	$ 4,748,082	$ 5,220,893	$ 1,074,144
Gross margin	1,794,563	2,003,977	199,033
Net income	138,504	242,001	7,079
Equity in net income of affiliates	13,808	16,513	4,084

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Condensed balance sheet information:

	December 31, 2009	December 31, 2008
Current assets	$ 981,431	$ 1,097,773
Noncurrent assets	6,216,491	6,725,220
Total assets	$ 7,197,922	$ 7,822,993
Current liabilities	$ 924,225	$ 1,028,494
Noncurrent liabilities	5,285,405	5,739,895
Equity	988,292	1,054,604
Total liabilities and equity	$ 7,197,922	$ 7,822,993

3. Business Combinations

The Company s retail operations acquired five and thirteen franchises during 2009 and 2008, respectively. The Company s financial statements include the results of operations of the acquired dealerships from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in the Company s consolidated financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the years ended December 31, 2009 and 2008 follows:

	December 31,	
	2009	2008
Accounts receivable	$	$ 4,845
Inventory	5,921	70,130
Other current assets	129	962
Property and equipment	3,250	4,734
Goodwill	1,746	57,729
Franchise value	749	23,894
Other assets		1,084
Current liabilities	(319)	(11,561)
Total consideration	11,476	151,817
Seller financed/assumed debt		(4,728)
Cash used in dealership acquisitions	$ 11,476	$ 147,089

4. Discontinued Operations

The Company accounts for dispositions of its retail operations as discontinued operations when it is evident that the operations and cash flows of a franchise being disposed of will be eliminated from on-going operations and that the Company will not have any significant continuing involvement in its operations.

In evaluating whether the cash flows of a dealership in its Retail reportable segment 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 owned dealerships, the Company does not treat the disposition as a discontinued operation if it believes that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining or replacement franchises. The net assets of dealerships accounted for as discontinued operations in the accompanying consolidated balance sheets were immaterial. Combined income statement information regarding dealerships accounted for as discontinued operations follows:

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenues	$ 34,995	$ 280,610	$ 666,897
Pre-tax (loss) income	(7,089)	(7,417)	791
Gain (loss) on disposal	(3,503)	(7,391)	1,276

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5. Inventories

Inventories consisted of the following:

	December 31, 2009	December 31, 2008
New vehicles	$ 901,222	$ 1,245,342
Used vehicles	326,376	259,634
Parts, accessories and other	78,934	81,938
Total inventories	$ 1,306,532	$ 1,586,914

The Company receives non-refundable credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $28,757, $24,678 and $30,841 during the years ended December 31, 2009, 2008 and 2007, respectively.

6. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2009	December 31, 2008
Buildings and leasehold improvements	$ 670,992	$ 583,106
Furniture, fixtures and equipment	312,456	292,705
Total	983,448	875,811
Less: Accumulated depreciation and amortization	(256,613)	(212,913)
Property and equipment, net	$ 726,835	$ 662,898

As of December 31, 2009 and 2008, approximately $27,900 and $27,800, respectively, of capitalized interest is included in buildings and leasehold improvements and is being amortized over the useful life of the related assets.

7. Intangible Assets

The following is a summary of the changes in the carrying amount of goodwill and franchise value during the years ended December 31, 2009 and 2008:

	Goodwill	Franchise Value
Balance December 31, 2007, net of accumulated impairment losses of $0 and $0, respectively	$ 1,429,399	$ 235,505
Additions	57,623	23,894
Deletions	(356)	(1,758)
Impairment	(606,349)	(37,110)
Foreign currency translation	(103,634)	(24,173)
Balance December 31, 2008, net of accumulated impairment losses of $606,349 and $37,110, respectively	$ 776,683	$ 196,358
Additions	1,101	749
Deletions		(1,128)

Foreign currency translation	32,539	5,777
Balance December 31, 2009, net of accumulated impairment losses of $606,349 and $37,110, respectively	$ 810,323	$ 201,756

The test for goodwill impairment, as defined by general accounting principles related to goodwill and other intangibles, is a two-step approach. The first step of the goodwill impairment test requires a determination of whether or not the fair value of a reporting unit is less than its carrying value. If so, the second step is required, which involves an analysis reflecting the allocation of the fair value determined in the first step to all of the reporting units assets and liabilities, including goodwill (as if the calculated fair value was the purchase price in a business combination). If the calculated fair value of the implied goodwill resulting from this allocation is lower than the carrying value of the goodwill in the reporting unit, the difference is recognized as a non-cash impairment charge. The purpose of the second step is only to determine the amount of goodwill that should be recorded on the balance sheet. The recorded amounts of other items on the balance sheet are not adjusted.

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We estimated the fair value of our reporting units using an income valuation approach. The income valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using our weighted average cost of capital as the discount rate. We also considered whether the allocation of our enterprise value, which is comprised of our market capitalization and our debt, supported the values obtained through our income approach. Through this consideration we include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest. The discounted cash flow approach used in the impairment test contains significant assumptions including revenue and profitability growth, franchise profit margins, residual values and the Company s cost of capital. Due to the weak operating environment of the past eighteen months, the Company adjusted the assumptions underlying its historical discounted cash flow. Among the assumptions applied are projected cash flows beginning after 2009 at levels slightly above recent levels to reflect anticipated improvement to the business environment, while the residual value reflects a growth rate more consistent with our historical growth rate. Additionally, the discount rate used in the current year reflects a movement towards historical assumptions versus that applied in the prior year analysis where there was more turbulence in worldwide credit markets.

The requirements of the goodwill impairment testing process are such that, in our situation, if the first step of the impairment testing process indicates that the fair value of the reporting unit is below its carrying value (even by a relatively small amount), the requirements of the second step of the test result in a significant decrease in the amount of goodwill recorded on the balance sheet. This is due to the fact that, prior to our adoption on July 1, 2001 of general accounting principles relating to business combinations, we did not separately identify franchise rights associated with the acquisition of dealerships as separate intangible assets. In performing the second step, we are required by general accounting principles related to goodwill and other intangibles to assign value to any previously unrecognized identifiable intangible assets (including such franchise rights, which are substantial) even though such amounts are not separately recorded on our consolidated balance sheet. As the calculated fair value of goodwill exceeded the carrying value in step one in 2009, there was no requirement to perform step two. In 2008, as a result of completing the first step of this interim goodwill impairment test, we determined that the carrying value of the goodwill in four of our five reporting units exceeded their fair value, which required us to perform the second step of the goodwill impairment test. Based on the results of the second step of the goodwill impairment test, we determined that goodwill was impaired, and we recorded pre-tax non-cash impairment charge of $606,349 in 2008.

In connection with the impairment testing of our goodwill noted above, we also tested our franchise value for impairment and there was no impairment of the carrying value associated with franchise value in 2009. In 2008, this testing resulted in a $37,110 impairment.

If the growth assumptions embodied in the current year impairment test prove inaccurate, the Company may incur impairment charges. In particular, a decline of 20% or more in the estimated fair market value of our U.K. reporting unit would yield a substantial write down. The net book value of the goodwill attributable to the U.K. reporting unit is approximately $339,500, a substantial portion of which would likely be written off if step one of the impairment test indicated impairment. If we experienced such a decline in our other reporting units, we would not expect to incur significant goodwill impairment charges. However, a 10% reduction in the estimated fair value of the franchises would result in franchise value impairment charges of approximately $5,700.

8. Floor Plan Notes Payable Trade and Non-trade

The Company finances substantially all of its new and a portion of its used vehicle inventories under revolving floor plan arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, the Company has not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. The Company typically makes monthly interest payments on the amount financed. Outside of the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less and the Company is generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been financed or the stated maturity. All of the floor plan agreements grant a security interest in substantially all of the assets of the Company s dealership subsidiaries, and in the U.S. are guaranteed by the Company. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate (LIBOR), the Finance House Bank Rate, or the Euro Interbank offer Rate. The weighted average interest rate on floor plan borrowings, including the effect of the interest rate swap discussed in Note 10, was 2.7%, 5.0% and 5.2% for the years ended December 31, 2009, 2008 and 2007, respectively. 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 balance sheets and classifies related cash flows as a financing activity on its consolidated statements of cash flows.

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9. Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2009	December 31, 2008
U.S. credit agreement term loan	$ 149,000	$ 209,000
U.K. credit agreement revolving credit line	59,803	59,831
U.K. credit agreement term loan	17,115	25,752
U.K. credit agreement seasonally adjusted overdraft line of credit	12,048	9,502
7.75% senior subordinated notes due 2016	375,000	375,000
3.5% senior subordinated convertible notes due 2026, net of debt discount	289,344	339,128
Mortgage facilities	41,358	42,243
Other	2,740	2,909
Total long-term debt	946,408	1,063,365
Less: current portion	(12,442)	(11,305)
Net long-term debt	$ 933,966	$ 1,052,060

Scheduled maturities of long-term debt for each of the next five years and thereafter are as follows:

2010	$ 12,442
2011	313,050
2012	150,134
2013	73,048
2014	1,257
2015 and thereafter	413,393
Total long-term debt maturities	963,324
Less: unamortized debt discount	16,916
Total long-term debt reported	$ 946,408

Principal repayments under our 3.5% senior subordinated notes due in 2026 are reflected in the table above, however, while these notes are not due until 2026, the holders may require us to purchase all or a portion of their notes for cash in 2011. This acceleration of ultimate repayment is reflected in the table above.

U.S. Credit Agreement

The Company is party to a $409,000 credit agreement with DCFS USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to $250,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan with a remaining balance of $149,000 (originally funded for $219,000), and for an additional $10,000 of availability for letters of credit, through September 30, 2012. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 0.50% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, may be prepaid at any time, but then may not be re-borrowed. We repaid $60,000 of this term loan during 2009.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company s domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company s ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity and a ratio of debt to EBITDA. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of December 31, 2009, the Company was in compliance with all covenants under the U.S. Credit Agreement.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to the Company s other material indebtedness. Substantially all of the Company s domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of December 31, 2009, $149,000 of term loans and $1,250 of letters of credit and no revolving borrowings were outstanding under the U.S. credit agreement.

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U.K. Credit Agreement

The Company s subsidiaries in the U.K. (the U.K. Subsidiaries) are party to an agreement, as amended, with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a funded term loan, a revolving credit agreement and a seasonally adjusted overdraft line of credit (collectively, the U.K. Credit Agreement) to be used to finance acquisitions, and for working capital and general corporate purposes. The U.K. Credit Agreement provides for (1) up to £100,000 in revolving loans through August 31, 2013, which bears interest between a defined LIBOR plus 1.1% and defined LIBOR plus 3.0%, (2) a term loan originally funded for £30,000 which bears interest between 6.39% and 8.29% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a demand seasonally adjusted overdraft line of credit for up to £20,000 that bears interest at the Bank of England Base Rate plus 1.75%.

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 EBITDAR 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 December 31, 2009, the U.K. Subsidiaries were in compliance with all covenants under the U.K. Credit Agreement.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of the U.K. Subsidiaries. Substantially all of the U.K. Subsidiaries assets are subject to security interests granted to lenders under the U.K. Credit Agreement. As of December 31, 2009, outstanding loans under the U.K. Credit Agreement amounted to £55,043 ($88,966), including £10,589 ($17,115) under the term loan.

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, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of the Company s wholly-owned domestic subsidiaries on a unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. The Company can redeem all or some of the 7.75% Notes at its option beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus an applicable make-whole premium, as defined. 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 December 31, 2009, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

In January 2006, the Company issued $375,000 aggregate principal amount of 3.50% senior subordinated convertible notes due 2026 (the Convertible Notes), of which $306,260 were outstanding at December 31, 2009. The Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by the Company, as discussed below. The Convertible Notes are unsecured senior subordinated obligations and subordinate to all future and existing debt under the Company s credit agreements, mortgages and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of the Company s wholly-owned domestic subsidiaries. Those guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of December 31, 2009, the Company was in compliance with all negative

covenants and there were no events of default.
Holders of the Convertible Notes may convert them based on a conversion rate of 42.7796 shares of common stock per $1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately $23.38 per share), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of the common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.43 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of the 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.

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

In the event of a conversion due to a change of control on or before April 6, 2011, the Company will, in certain circumstances, pay a make-whole premium by increasing the conversion rate used in that conversion. In addition, the Company will pay additional cash interest, commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes. On or after April 6, 2011, the Company may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date.

Holders of the Convertible Notes may require the Company to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2011, April 1, 2016 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.

In March 2009, the Company repurchased $68,740 principal amount of its outstanding Convertible Notes, which had a book value, net of debt discount, of $62,831 for $51,425. In connection with the transaction, the Company wrote off $5,909 of unamortized debt discount and $672 of unamortized deferred financing costs, and incurred $305 of transaction costs. No element of the consideration was allocated to the reacquisition of the equity component because the consideration paid was less than the fair value of the liability component prior to extinguishment. As a result, the Company recorded a $10,429 pre-tax gain in connection with the repurchase.

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

	December 31, 2009	December 31, 2008
Carrying amount of the equity component	$ 43,093	$ 43,093
Principal amount of the liability component	$ 306,260	$ 375,000
Unamortized debt discount	16,916	35,872
Net carrying amount of the liability component	$ 289,344	$ 339,128

Based on amounts outstanding at December 31, 2009, the remaining unamortized debt discount will be amortized as additional interest expense through the date the Company expects to be required to redeem the Convertible Notes, approximately $13,423 of which will be recognized as an increase of interest expense over the next twelve months. The annual effective interest rate on the liability component is 8.25%.

In February 2010, the Company repurchased $44,050 principal amount of its outstanding Convertible Notes for $44,380.

Mortgage Facilities

The Company is party to a $42,400 mortgage facility with respect to certain of its dealership properties that matures on October 1, 2015. The facility bears interest at a defined rate, requires monthly principal and interest payments, and includes the option to extend the term for successive periods of five years up to a maximum term of twenty-five years.

In the event the Company exercises its options to extend the term, the interest rate will be renegotiated at each renewal period. The mortgage facility also contains typical events of default, including non-payment of obligations, cross-defaults to the Company s other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the property. Substantially all of the buildings, improvements, fixtures and personal property relating to the properties under the mortgage facility are subject to security interests granted to the lender. As of December 31, 2009, $41,358 was outstanding under this facility.

PENSKE AUTOMOTIVE GROUP, INC.
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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 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.

10. Interest Rate Swaps

The Company uses interest rate swaps to manage interest rate risk associated with the Company s variable rate floor plan debt. The Company is party to interest rate swap agreements through January 7, 2011 pursuant to which the LIBOR portion of $300,000 of the Company s floating rate floor plan debt was fixed at 3.67%. We may terminate these arrangements at any time, subject to the settlement of the then current fair value of the swap arrangements.

Prior to the third quarter of 2009, the swaps were designated as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings and the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affected earnings. During the quarter ended September 30, 2009, the Company experienced declines in outstanding floor plan debt balances related to certain floor plan lenders due to significant declines in vehicle inventory levels which caused hedged floor plan balances to fall below the notional value of the swap agreements. The Company elected to de-designate these cash flow hedges on September 30, 2009, and, as a result, recorded a net loss of $1,057 in floor plan interest expense.

The Company re-designated $290,000 of the interest rate swap agreements as cash flow hedges of future interest payments of LIBOR based U.S. floor plan borrowings and the effective portion of the gain or loss on that $290,000 of the swap agreements is reported as a component of other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Future settlements and changes in the fair value related to the undesignated $10,000 of the swap agreements will be recorded as realized and unrealized gains/losses within interest expense.

As of December 31, 2009, the Company used Level 2 inputs to estimate the fair value of the interest rate swap agreements designated as hedging instruments to be a liability of $9,963, of which $9,250 and $713 are recorded in accrued expenses and other long-term liabilities, respectively. The Company used Level 2 inputs to estimate the fair value of the interest rate swap agreements not designated as hedging instruments as of December 31, 2009 to be a liability of $344, of which $319 and $25 are recorded in accrued expenses and other long-term liabilities, respectively.

During the year ended December 31, 2009, the Company recognized a net gain of $2,952 related to the effective portion of the interest rate swap agreements designated as hedging instruments in accumulated other comprehensive income, and reclassified $10,917 of the existing derivative losses, including the $1,057 loss on de-designation, from accumulated other comprehensive income into floor plan interest expense. The Company expects approximately $8,157 associated with the swaps to be recognized as an increase of interest expense over the next twelve months as the hedged interest payments become due. During the year ended December 31, 2009, the swaps increased the weighted average interest rate on the Company s floor plan borrowings by approximately 0.8%.

11. Off-Balance Sheet Arrangements

See Note 12 for a discussion of the Company s lease obligations relating to properties associated with disposed franchises.

12. Commitments and Contingent Liabilities

The Company is involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of December 31, 2009, the Company is not party to any legal proceedings, including class action lawsuits, that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company s results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company s results of operations, financial condition or cash flows.

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

The Company has historically structured its operations so as to minimize ownership of real property. As a result, the Company leases or subleases substantially all of its facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at the Company s election. The Company estimates the total rent obligations under these leases including any extension periods it may exercise at its discretion and assuming constant consumer price indices to be $4.8 billion. Pursuant to the leases for some of the Company s larger facilities, the Company is required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require the Company to post collateral in the form of a letter of credit. A breach of the other lease covenants gives rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease.

Minimum future rental payments required under operating leases in effect as of December 31, 2009 are as follows:

2010	$ 178,539
2011	177,185
2012	176,117
2013	175,125
2014	174,190
2015 and thereafter	3,914,449
	$ 4,795,605

Rent expense for the years ended December 31, 2009, 2008 and 2007 amounted to $165,256, $160,113 and $150,430, respectively. Of the total rental payments, $431, $470 and $455, respectively, were made to related parties during 2009, 2008 and 2007, respectively (See Note 13).

The Company has sold a number of dealerships to third parties and, as a condition to certain of those sales, remains liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. The Company is also party to lease agreements on properties that it no longer uses in its retail operations that it has sublet to third parties. The Company relies on subtenants to pay the associated rent and maintain the property at these locations. In the event the subtenant does not perform as expected, the Company may not be able to recover amounts owed to it and the Company could be required to fulfill these obligations. The aggregate rent paid by the tenants on those properties in 2009 was approximately $11,722, and, in aggregate, the Company currently guarantees or is otherwise liable for approximately $202,486 of these lease payments, including lease payments during available renewal periods.

The Company is potentially subject to additional purchase commitments pursuant to its smart distribution agreement, smart franchise agreement and state franchise laws in the event of franchise terminations, none of which have historically had a material adverse effect on its results of operations, financial condition or cash flows. The Company does not anticipate that the purchase commitments will have a material adverse effect on its future results of operations, financial condition or cash flows, although such outcome is possible.

13. Related Party Transactions

The Company currently is 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. During the years ended December 31, 2009, 2008 and 2007, the Company paid $431, $470 and $455, respectively, to AGR under these lease agreements. 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. Any such transaction is valued at a price that is independently confirmed. There were no purchase or sale transactions with AGR in 2007, 2008, or 2009.

The Company sometimes pays to and/or receives 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 the Company s Audit Committee and reflect the provider s cost or an amount mutually agreed upon by both parties. During the years ended December 31, 2009, 2008 and 2007, Penske Corporation and its affiliates billed the Company $3,368, $2,522 and $3,989, respectively, and the Company billed Penske Corporation and its affiliates $24, $27 and $105, respectively, for such services. As of December 31, 2009 and 2008, the Company had $13 and $11 of receivables from and $363 and $313 of payables to Penske Corporation and its subsidiaries, respectively.

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(In thousands, except per share amounts) (Continued)

The Company, Penske Corporation and certain affiliates have entered into a joint insurance agreement which provides that, with respect to any joint insurance (currently only our joint crime insurance policy), available coverage with respect to a loss shall be paid to each party per occurrence as stipulated in the policies. In the event of losses by the Company and Penske Corporation that exceed the limit of liability for any policy or policy period, the total policy proceeds will be allocated based on the ratio of premiums paid.

The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GE Capital. The Company is party to a partnership agreement among the other partners which, among other things, provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests. In 2009 and 2008, the Company received $20,012 and $2,691, respectively, from PTL in pro rata cash dividends.

The Company is also party to a five year sublease pursuant to which PTL occupies a portion of one of our dealership locations in New Jersey for $87 per year plus its pro rata share of certain property expenses. During 2009 and 2008, respectively, smart USA paid PTL $1,217 and $1,164 for assistance with roadside assistance and other services to smart fortwo owners, of which $863 and $860, respectively, were pass-through expenses to be paid by PTL to third party vendors. In 2009, PTL began hosting the Company s disaster recovery site. Annual fees paid to PTL for this service will be $70. The Company paid $17 for these services in 2009.

Pursuant to the repurchase program described in Note 15 below, the Company repurchased an aggregate of 950,000 shares of it s outstanding common stock from Eustace W. Mita, a former director, for $10,300 in 2008. The transaction prices were based on the closing prices of the Company s common stock on the New York Stock Exchange on the dates the shares were acquired.

From time to time the Company enters into joint venture relationships in the ordinary course of business, pursuant to which it owns and operates automotive dealerships together with other investors. The Company may also provide these dealerships with working capital and other debt financing at costs that are based on the Company s incremental borrowing rate. As of December 31, 2009, the Company s automotive joint venture relationships were as follows:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	87.95%(A)(B)
Edison, New Jersey	Ferrari, Maserati	70.00%(B)
Las Vegas, Nevada	Ferrari, Maserati	50.00%(C)
Munich, Germany	BMW, MINI	50.00%(C)
Frankfurt, Germany	Lexus, Toyota	50.00%(C)
Achen, Germany	Audi, Lexus, Toyota, Volkswagen	50.00%(C)

(A) An entity controlled by one of the Company s directors, Lucio A. Noto (the Investor), owns a 12.05% interest in this joint venture, which entitles the Investor to 20% of the operating profits of the joint venture. 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 the Company s financial statements.

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

14. Stock-Based Compensation

Key employees, outside directors, consultants and advisors of the Company are eligible to receive stock-based compensation pursuant to the terms of the Company s 2002 Equity Compensation Plan (the Plan). The Plan originally allowed for the issuance of 4,200 shares for stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and other awards. As of December 31, 2009, 2,089 shares of common stock were available for grant under the Plan. Compensation expense related to the Plan was $5,631, $5,710, and $5,045 during the years ended December 31, 2009, 2008 and 2007, respectively.

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Restricted Stock

During 2009, 2008 and 2007, the Company granted 114, 378 and 269 shares, respectively, of restricted common stock at no cost to participants under the Plan. The restricted stock entitles the participants to vote their respective shares and receive dividends. The shares are subject to forfeiture and are non-transferable, which restrictions generally lapse over a four year period from the grant date. The grant date quoted market price of the underlying common stock is amortized as expense over the restriction period. As of December 31, 2009, there was $5,606 of total unrecognized compensation cost related to the restricted stock. That cost is expected to be recognized over the next 3.5 years.

Presented below is a summary of the status of the Company s restricted stock as of December 31, 2008 and changes during the year ended December 31, 2009:

	Shares	Weighted Average Grant-Date Fair Value	Intrinsic Value
December 31, 2008	740	$ 19.45	$ 5,700
Granted	114	9.98	
Vested	(250)	17.36	
Forfeited	(21)	11.75	
December 31, 2009	583	$ 18.49	$ 8,880

Stock Options

Options were granted by the Company prior to 2006. These options generally vested over a three year period and had a maximum term of ten years.

Presented below is a summary of the status of stock options held by participants during 2009, 2008 and 2007:

	2009		2008		2007	
Stock Options	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Options outstanding at beginning of year	324	$ 9.01	386	$ 9.11	733	$ 8.40
Granted						
Exercised	33	6.65	60	9.61	205	7.30
Forfeited			2	8.95	142	8.05
Options outstanding at end of year	291	$ 9.29	324	$ 9.01	386	$ 9.11

The total intrinsic value of stock options exercised was $325, $641, and $2,819 in 2009, 2008, and 2007, respectively.

The following table summarizes the status of stock options outstanding and exercisable as of December 31, 2009:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Remaining	Weighted Average Exercise Price	Intrinsic Value	Stock Options Exercisable	Weighted Average Exercise Price	Intrinsic Value

		Contractual Life					
$3 to $6	68	1.2	$ 4.74	$ 714	68	$ 4.74	$ 714
$6 to $16	223	2.2	10.51	1,037	223	10.51	1,037
	291			$ 1,751	291		$ 1,751

15. Equity

Share Repurchase

During 2008, the Company repurchased 4.015 million shares of our outstanding common stock for $53,661, or an average of $13.36 per share, under a program approved by the Company s board of directors.

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

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, follow:

	Currency Translation	Other	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2006	$ 78,296	$ 1,083	$ 79,379
Change	12,745	7,864	20,609
Balance at December 31, 2007	91,041	8,947	99,988
Change	(134,087)	(11,890)	(145,977)
Balance at December 31, 2008	(43,046)	(2,943)	(45,989)
Change	47,920	7,118	55,038
Balance at December 31, 2009	$ 4,874	$ 4,175	$ 9,049

Other represents changes relating to other immaterial items, including: certain defined benefit plans in the U.K., changes in the fair value of interest rate swap agreements, and valuation adjustments relating to certain available for sale securities each of which has been excluded from net income and reflected in equity.

16. Income Taxes

Income taxes relating to income (loss) from continuing operations consisted of the following:

	Year Ended December 31, 2009	2008	2007
Current:			
Federal	$ (27,518)	$ (18,189)	$ 9,222
State and local	1,170	1,596	2,808
Foreign	25,452	17,285	24,317
Total current	(896)	692	36,347
Deferred:			
Federal	37,646	(88,167)	15,869
State and local	7,549	(19,292)	3,489
Foreign	1,087	1,026	6,078
Total deferred	46,282	(106,433)	25,436
Income taxes relating to continuing operations	$ 45,386	$ (105,741)	$ 61,783

Income taxes relating to income (loss) from continuing operations varied from the U.S. federal statutory income tax rate due to the following:

Year Ended December 31,

	2009	2008	2007
Income taxes relating to continuing operations at federal statutory rate of 35%	$ 45,300	$ (180,897)	$ 64,131
State and local income taxes, net of federal taxes	6,002	(12,832)	3,710
Foreign	(7,111)	(1,853)	(4,587)
Goodwill impairment		90,575	
Other	1,195	(734)	(1,471)
Income taxes relating to continuing operations	$ 45,386	$ (105,741)	$ 61,783

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The components of deferred tax assets and liabilities at December 31, 2009 and 2008 were as follows:

	2009	2008
Deferred Tax Assets		
Accrued liabilities	$ 41,227	$ 41,362
Net operating loss carryforwards	27,502	24,051
Interest rate swap	3,924	6,273
Other	3,268	3,503
Total deferred tax assets	75,921	75,189
Valuation allowance	(6,073)	(3,378)
Net deferred tax assets	69,848	71,811
Deferred Tax Liabilities		
Depreciation and amortization	(73,273)	(51,748)
Partnership investments	(93,551)	(58,992)
Convertible notes	(32,745)	(36,982)
Other	(1,940)	(2,575)
Total deferred tax liabilities	(201,509)	(150,297)
Net deferred tax liabilities	$ (131,661)	$ (78,486)

As of December 31, 2009 and 2008, approximately $689,522 of the Company s goodwill is deductible for tax purposes. The Company has established deferred tax liabilities related to the temporary differences relating to such tax deductible goodwill.

General accounting principles relating to uncertain income tax positions prescribe a minimum recognition threshold a tax position is required to meet before being recognized, and provides guidance on the derecognition, measurement, classification and disclosure relating to income taxes. The Company adopted this accounting principle 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.

The movement in uncertain tax positions for the years ended December 31, 2009, 2008, and 2007 were as follows:

	2009	2008	2007
Uncertain tax positions January 1, 2009	$ 32,901	$ 43,333	$ 39,339
Gross increase tax position in prior periods	2,411	2,751	10,087
Gross decrease tax position in prior periods	(165)	(787)	(498)
Gross increase current period tax position		50	433
Settlements		(1,453)	(3,872)
Lapse in statute of limitations	(1,227)	(1,481)	(2,156)
Foreign exchange	2,967	(9,512)	
Uncertain tax positions December 31, 2009	$ 36,887	$ 32,901	$ 43,333

The Company has elected to include interest and penalties in its income tax expense. The total interest and penalties included within uncertain tax positions at December 31, 2009 was $7,958. We do not expect a significant change to the amount of uncertain tax positions within the next twelve months. The Company s U.S. federal returns remain open to examination for 2006 to 2008 and various foreign and U.S. states jurisdictions are open for periods ranging from 2002 through 2008. The portion of the total amount of uncertain tax positions as of December 31, 2009 that would, if recognized, impact the effective tax rate was $27,872.

The Company does not provide for U.S. taxes relating to undistributed earnings or losses of its foreign subsidiaries. Income from continuing operations before income taxes of foreign subsidiaries (which subsidiaries are predominately in the U.K.) was $96,153, $35,112 and $103,395 during the years ended December 31, 2009, 2008 and 2007, respectively. It is the Company s belief that such earnings will be indefinitely reinvested in the companies that produced them. At December 31, 2009, the Company has not provided U.S. federal income taxes on a total of $503,059 of earnings of individual foreign subsidiaries. If these earnings were remitted as dividends, the Company would be subject to U.S. income taxes and certain foreign withholding taxes.

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At December 31, 2009, the Company has $23,186 of federal net operating loss carryforwards in the U.S. expiring in 2028, $226,586 of state net operating loss carryforwards in the U.S. that expire at various dates through 2029, $2,773 of federal capital loss carryforwards in the U.S. expiring in 2014, $3,981 of state capital loss carryforwards in the U.S. expiring through 2024, U.S. federal and state credit carryforwards of $4,929 that will not expire, a U.K. net operating loss carryforward of $4,014 that will not expire, a U.K. capital loss of $5,521 that will not expire, and a German net operating loss of $4,717 that will not expire. A valuation allowance of $4,859 has been recorded against the state net operating loss carryforwards in the U.S., a valuation allowance of $29 has been recorded against the state credit carryforwards in the U.S., and a valuation allowance of $1,185 has been recorded against federal and state capital loss carryforwards in the U.S.

The Company has classified its tax reserves as a long term obligation on the basis that management does not expect to make payments relating to those reserves within the next twelve months.

17. Segment Information

The Company s operations are organized by management into operating segments by line of business and geography. The Company has determined it has three reportable segments as defined in general accounting principles for segment reporting, including: (i) Retail, consisting of our automotive retail operations, (ii) Distribution, consisting of our distribution of the smart fortwo vehicle, parts and accessories in the U.S. and Puerto Rico and (iii) PAG Investments, consisting of our investments in non-automotive retail operations. The Retail reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships. The individual dealership operations included in the Retail reportable segment have been grouped into five geographic operating segments, which have been aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). The accounting policies of the segments are the same and are described in Note 1.

The following table summarizes revenues, floor plan interest expense, other interest expense, debt discount amortization, depreciation and amortization, equity in earnings (loss) of affiliates and income (loss) from continuing operations before certain non-recurring items and income taxes, which is the measure by which management allocates resources to its segments, and which we refer to as adjusted segment income (loss), for each of our reportable segments. Adjusted segment income excludes the items in the table below in order to enhance the comparability of segment income from period to period.

	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Revenues					
2009	$ 9,344,022	$ 205,962	$	$ (26,879)	$ 9,523,105
2008	11,288,327	409,640		(60,831)	11,637,136
2007	12,781,717				12,781,717
Floor plan interest expense					
2009	$ 34,894	$ 768	$	$	$ 35,662
2008	63,521	667			64,188
2007	73,104				73,104
Other interest expense					
2009	$ 55,201	$	$	$	$ 55,201
2008	54,504				54,504
2007	55,266				55,266

Debt discount amortization					
2009	$ 13,043	$	$	$	$ 13,043
2008	13,984				13,984
2007	12,896				12,896
Depreciation and amortization					
2009	$ 53,532	$ 702	$	$	$ 54,234
2008	53,475	402			53,877
2007	50,007				50,007
Equity in earnings (losses) of affiliates					
2009	$ 2,617	$	$ 11,191	$	$ 13,808
2008	3,293		13,220		16,513
2007	4,415		(331)		4,084

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	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Adjusted segment income (loss)					
2009	$ 113,966	$ (6,353)	$ 11,191	$ 195	$ 118,999
2008	83,502	30,525	13,220	(986)	126,261
2007	201,950		(331)		201,619

The following table reconciles total adjusted segment income (loss) to consolidated income (loss) from continuing operations before income taxes. The intangible impairment is associated with the Retail reportable segment as there is no goodwill reported in the Distribution or PAG Investments reportable segments.

	Year Ended December 31, 2009	2008	2007
Adjusted segment income	$ 118,999	$ 126,261	$ 201,619
Gain on debt repurchase	10,429		
Intangible impairments		(643,459)	
Loss on debt redemption			(18,634)
Income (loss) from continuing operations before income taxes	$ 129,428	$ (517,198)	$ 182,985

Total assets, equity method investments, and capital expenditures by reporting segment are as set forth in the table below.

	Retail	Distribution	PAG Investments	Intersegment Elimination	Total
Total assets					
2009	$ 3,524,314	$ 37,835	$ 234,443	$ (585)	$ 3,796,007
2008	3,676,347	47,054	240,138	$ (1,390)	3,962,149
Equity method investments					
2009	$ 61,030	$	$ 234,443	$	$ 295,473
2008	56,349		240,138		296,487
Capital expenditures					
2009	$ 90,315	$	$	$	$ 90,315
2008	208,291	5,644		(2,103)	211,832
2007	190,530	5,405		(1,443)	194,492

The following table presents certain data by geographic area:

	Year Ended December 31, 2009	2008	2007
Sales to external customers:			
U.S.	$ 6,008,678	$ 7,396,382	$ 7,993,780
Foreign	3,514,427	4,240,754	4,787,937
Total sales to external customers	$ 9,523,105	$ 11,637,136	$ 12,781,717
Long-lived assets, net:			

U.S.	$ 743,699	$ 770,329
Foreign	296,765	211,516
Total long-lived assets	$ 1,040,464	$ 981,845

The Company s foreign operations are predominantly based in the U.K.

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

18. Summary of Quarterly Financial Data (Unaudited)

2009(1)(2)(3)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total revenues	$ 2,159,899	$ 2,324,621	$ 2,594,412	$ 2,444,173
Gross profit	368,608	395,265	424,020	394,418
Net income	16,202	14,167	27,662	18,889
Net income attributable to Penske Automotive Group common stockholders	16,282	14,079	27,423	18,677
Diluted earnings per share attributable to Penske Automotive Group common stockholders	$ 0.18	$ 0.15	$ 0.30	$ 0.20

2008(1)(2)(4)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total revenues	$ 3,176,199	$ 3,333,911	$ 2,972,433	$ 2,154,593
Gross profit	488,433	496,635	457,620	347,516
Net income (loss)	32,331	38,258	22,372	(511,864)
Net income (loss) attributable to Penske Automotive Group common stockholders	31,896	37,830	22,183	(511,945)
Diluted earnings (loss) per share attributable to Penske Automotive Group common stockholders	$ 0.33	$ 0.40	$ 0.24	$ (5.59)

(1) As discussed in Note 4, the Company has treated the operations of certain entities as discontinued operations. The results for all periods have been restated to reflect such treatment.

(2) Per share amounts are calculated independently for each of the quarters presented. The sum of the quarters may

not equal the full year per share amounts due to rounding.

(3) Results for the year ended December 31, 2009 include a first quarter pre-tax gain of $10,429 relating to the repurchase of $68,740 aggregate principal amount of the Company s 3.5% senior subordinated convertible notes.

(4) Results for the year ended December 31, 2008 include fourth quarter charges of $657,590, including $643,459, relating to goodwill and franchise asset impairments, as well as, an additional $14,131 of dealership consolidation and relocation costs, severance costs, and other asset impairment charges, and third quarter charges of $4,290 relating

to severance costs, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike.

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

19. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008, and 2007 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 and cash flows of these entities on a stand-alone basis.

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2009

	Total Company	Eliminations	Penske Automotive Group, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 13,769	$	$	$ 12,114	$ 1,655
Accounts receivable, net	322,598	(230,299)	230,299	197,120	125,478
Inventories	1,306,532			780,924	525,608
Other current assets	95,560		1,725	61,774	32,061
Assets held for sale	5,005			5,005	
Total current assets	1,743,464	(230,299)	232,024	1,056,937	684,802
Property and equipment, net	726,835		6,007	450,143	270,685
Intangible assets	1,012,079			570,558	441,521
Equity method investments	295,473		231,897		63,576
Other long-term assets	18,156	(1,287,938)	1,293,067	10,852	2,175
Total assets	$ 3,796,007	$ (1,518,237)	$ 1,762,995	$ 2,088,490	$ 1,462,759
Floor plan notes payable	$ 772,926	$	$	$ 451,338	$ 321,588
Floor plan notes payable non-trade	423,316			254,807	168,509
Accounts payable	190,325		3,268	74,946	112,111
Accrued expenses	227,725	(230,299)	344	112,231	345,449
Current portion of long-term debt	12,442			1,033	11,409
Liabilities held for sale	3,083			3,083	
Total current liabilities	1,629,817	(230,299)	3,612	897,438	959,066
Long-term debt	933,966	(59,706)	813,344	43,066	137,262
Deferred tax liability	157,500			145,551	11,949
Other long-term liabilities	128,685			123,710	4,975
Total liabilities	2,849,968	(290,005)	816,956	1,209,765	1,113,252
Total equity	946,039	(1,228,232)	946,039	878,725	349,507
Total liabilities and equity	$ 3,796,007	$ (1,518,237)	$ 1,762,995	$ 2,088,490	$ 1,462,759

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2008

	Total Company	Eliminations	Penske Automotive Group, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 17,108	$	$	$ 14,126	$ 2,982
Accounts receivable, net	294,230	(196,465)	196,465	182,230	112,000
Inventories	1,586,914			996,199	590,715
Other current assets	88,437		2,711	59,859	25,867
Assets held for sale	20,574			8,656	11,918
Total current assets	2,007,263	(196,465)	199,176	1,261,070	743,482
Property and equipment, net	662,898		6,927	415,985	239,986
Intangible assets	973,041			541,191	431,850
Equity method investments	296,487		227,451		69,036
Other long-term assets	22,460	(1,293,431)	1,300,546	12,169	3,176
Total assets	$ 3,962,149	$ (1,489,896)	$ 1,734,100	$ 2,230,415	$ 1,487,530
Floor plan notes payable	$ 961,993	$	$	$ 654,689	$ 307,304
Floor plan notes payable non-trade	507,404			268,988	238,416
Accounts payable	178,994		2,183	79,849	96,962
Accrued expenses	196,704	(196,465)	368	94,848	297,953
Current portion of long-term debt	11,305			978	10,327
Liabilities held for sale	24,289			7,163	17,126
Total current liabilities	1,880,689	(196,465)	2,551	1,106,515	968,088
Long-term debt	1,052,060	(138,341)	923,128	44,117	223,156
Deferred tax liability	106,590			97,491	9,099
Other long-term liabilities	114,389			103,623	10,766
Total liabilities	3,153,728	(334,806)	925,679	1,351,746	1,211,109
Total equity	808,421	(1,155,090)	808,421	878,669	276,421
Total liabilities and equity	$ 3,962,149	$ (1,489,896)	$ 1,734,100	$ 2,230,415	$ 1,487,530

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2009

	Total Company	Eliminations	Penske Automotive Group, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	$ 9,523,105	$	$	$ 5,565,756	$ 3,957,349
Cost of sales	7,940,794			4,609,527	3,331,267
Gross profit	1,582,311			956,229	626,082
Selling, general, and administrative expenses	1,318,980		18,259	807,020	493,701
Depreciation and amortization	54,234		1,160	33,501	19,573
Operating income (loss)	209,097		(19,419)	115,708	112,808
Floor plan interest expense	(35,662)			(25,182)	(10,480)
Other interest expense	(55,201)		(41,036)	(139)	(14,026)
Debt discount amortization	(13,043)		(13,043)		
Equity in earnings of affiliates	13,808		11,087		2,721
Gain on debt repurchase	10,429		10,429		
Equity in earnings of subsidiaries		(180,951)	180,951		
Income from continuing operations before income taxes	129,428	(180,951)	128,969	90,387	91,023
Income taxes	(45,386)	63,679	(45,386)	(37,754)	(25,925)
Income from continuing operations	84,042	(117,272)	83,583	52,633	65,098
Loss from discontinued operations, net of tax	(7,122)	7,122	(7,122)	(4,747)	(2,375)
Net income	76,920	(110,150)	76,461	47,886	62,723
Less: Income attributable to non-controlling interests	459				459
Net income attributable to Penske Automotive Group common stockholders	$ 76,461	$ (110,150)	$ 76,461	$ 47,886	$ 62,264

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2008

	Total		Penske Automotive	Guarantor	Non-Guarantor

	Company	Eliminations	Group, Inc.	Subsidiaries	Subsidiaries
			(In thousands)		
Revenues	$ 11,637,136	$	$	$ 6,819,447	$ 4,817,689
Cost of sales	9,846,932			5,723,490	4,123,442
Gross profit	1,790,204			1,095,957	694,247
Selling, general, and administrative expenses	1,493,903		26,436	934,505	532,962
Intangible impairments	643,459			611,520	31,939
Depreciation and amortization	53,877		1,233	31,353	21,291
Operating (loss) income	(401,035)		(27,669)	(481,421)	108,055
Floor plan interest expense	(64,188)			(37,305)	(26,883)
Other interest expense	(54,504)		(37,412)	(228)	(16,864)
Debt discount amortization	(13,984)		(13,984)		
Equity in earnings of affiliates	16,513		10,827		5,686
Equity in earnings of subsidiaries		450,093	(450,093)		
(Loss) income from continuing operations before income taxes	(517,198)	450,093	(518,331)	(518,954)	69,994
Income taxes	105,741	(89,520)	105,741	110,885	(21,365)
(Loss) income from continuing operations	(411,457)	360,573	(412,590)	(408,069)	48,629
Loss from discontinued operations, net of tax	(7,446)	7,446	(7,446)	(6,540)	(906)
Net (loss) income	(418,903)	368,019	(420,036)	(414,609)	47,723
Less: Income attributable to non-controlling interests	1,133				1,133
Net (loss) income attributable to Penske Automotive Group common stockholders	$ (420,036)	$ 368,019	$ (420,036)	$ (414,609)	$ 46,590

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2007

	Total Company	Eliminations	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 12,781,717	$	$	$ 7,066,754	$ 5,714,963
Cost of sales	10,885,188			5,981,973	4,903,215
Gross profit	1,896,529			1,084,781	811,748
Selling, general, and administrative expenses	1,507,721		16,529	861,917	629,275
Depreciation and amortization	50,007		1,166	26,354	22,487
Operating income (loss)	338,801		(17,695)	196,510	159,986
Floor plan interest expense	(73,104)			(42,094)	(31,010)
Other interest expense	(55,266)		(31,061)	(97)	(24,108)
Debt discount amortization	(12,896)		(12,896)		
Equity in earnings of affiliates	4,084				4,084
Loss on debt redemption	(18,634)		(18,634)		
Equity in earnings of subsidiaries		(261,299)	261,299		
Income from continuing operations before income taxes	182,985	(261,299)	181,013	154,319	108,952
Income taxes	(61,783)	89,186	(61,783)	(54,694)	(34,492)
Income from continuing operations	121,202	(172,113)	119,230	99,625	74,460
Income from discontinued operations, net of tax	1,031	(1,031)	1,031	1,013	18
Net income	122,233	(173,144)	120,261	100,638	74,478
Less: Income attributable to non-controlling interests	1,972				1,972
Net income attributable to Penske Automotive Group common stockholders	$ 120,261	$ (173,144)	$ 120,261	$ 100,638	$ 72,506

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2009

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	$ 303,444	$ 42,525	$ 87,038	$ 173,881
Investing Activities:				
Purchase of equipment and improvements	(90,315)	(240)	(66,085)	(23,990)
Proceeds from sale leaseback transactions	2,338		2,338	
Dealership acquisitions, net	(11,476)		(3,556)	(7,920)
Other	17,994	11,485	(206)	6,715
Net cash from continuing investing activities	(81,459)	11,245	(67,509)	(25,195)
Financing Activities:				
Repayments under U.S. credit agreement term loan	(60,000)	(60,000)		
Repurchase 3.5% senior subordinated convertible notes	(51,424)	(51,424)		
Net (repayments) borrowings of other long-term debt	(17,402)	57,305	(126)	(74,581)
Net (repayments) of floor plan notes payable non-trade	(84,088)		(14,181)	(69,907)
Proceeds from exercises of options, including excess tax benefit	349	349		
Distributions from (to) parent			317	(317)
Net cash from continuing financing activities	(212,565)	(53,770)	(13,990)	(144,805)
Net cash from discontinued operations	(12,759)		(7,551)	(5,208)
Net change in cash and cash equivalents	(3,339)		(2,012)	(1,327)
Cash and cash equivalents, beginning of period	17,108		14,126	2,982
Cash and cash equivalents, end of period	$ 13,769	$	$ 12,114	$ 1,655

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2008

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	$ 404,628	$ 23,547	$ 200,255	$ 180,826
Investing Activities:				
Purchase of equipment and improvements	(211,832)	(3,547)	(130,814)	(77,471)
Proceeds from sale leaseback transactions	37,422		23,223	14,199
Dealership acquisitions, net	(147,089)		(98,589)	(48,500)
Purchase of Penske Truck Leasing Co., L.P. partnership interest	(219,000)	(219,000)		
Other	(1,500)			(1,500)
Net cash from continuing investing activities	(541,999)	(222,547)	(206,180)	(113,272)
Financing Activities:				
Proceeds from U.S. credit agreement term loan	219,000	219,000		
Repayments under U.S. credit agreement term loan	(10,000)	(10,000)		
Proceeds from mortgage facility	42,400		42,400	
Net (repayments) borrowings of other long-term debt	(1,520)	77,263	7,794	(86,577)
Net (repayments) borrowings of floor plan notes payable non-trade	(52,783)		(63,451)	10,668
Payment of deferred financing costs	(661)	(521)		(140)
Proceeds from exercises of options, including excess tax benefit	821	821		
Repurchase of common stock	(53,661)	(53,661)		
Distributions from (to) parent			4,824	(4,824)
Dividends	(33,902)	(33,902)		
Net cash from continuing financing activities	109,694	199,000	(8,433)	(80,873)
Net cash from discontinued operations	31,169		24,740	6,429
Net change in cash and cash equivalents	3,492		10,382	(6,890)
Cash and cash equivalents, beginning of period	13,616		3,744	9,872
Cash and cash equivalents, end of period	$ 17,108	$	$ 14,126	$ 2,982

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts) (Continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2007

	Total Company	Penske Automotive Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	$ 300,494	$ 7,634	$ 117,499	$ 175,361
Investing Activities:				
Purchase of equipment and improvements	(194,492)	(1,959)	(103,661)	(88,872)
Proceeds from sale leaseback transactions	131,793		67,351	64,442
Dealership acquisitions, net	(180,721)		(121,025)	(59,696)
Other	15,518	8,764		6,754
Net cash from continuing investing activities	(227,902)	6,805	(157,335)	(77,372)
Financing Activities:				
Net (repayments) borrowings of long-term debt	(34,190)	325,833	(287,212)	(72,811)
Net borrowings (repayments) of floor plan notes payable non-trade	188,692		202,054	(13,362)
Redemption of 9 5/8% senior subordinated debt	(314,439)	(314,439)		
Proceeds from exercises of options, including excess tax benefit	2,614	2,614		
Distributions from (to) parent			17,002	(17,002)
Dividends	(28,447)	(28,447)		
Net cash from continuing financing activities	(185,770)	(14,439)	(68,156)	(103,175)
Net cash from discontinued operations	108,731		106,327	2,404
Net change in cash and cash equivalents	(4,447)		(1,665)	(2,782)
Cash and cash equivalents, beginning of period	18,063		5,409	12,654
Cash and cash equivalents, end of period	$ 13,616	$	$ 3,744	$ 9,872

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Schedule II

PENSKE AUTOMOTIVE GROUP, INC.
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Additions	Deductions, Recoveries & Other	Balance at End of Year
		(In thousands)		
Year Ended December 31, 2009				
Allowance for doubtful accounts	2,081	1,223	(1,610)	1,694
Tax valuation allowance	3,378	3,649	(954)	6,073
Year Ended December 31, 2008				
Allowance for doubtful accounts	2,870	1,365	(2,154)	2,081
Tax valuation allowance	2,337	1,041		3,378
Year Ended December 31, 2007				
Allowance for doubtful accounts	2,702	1,810	(1,642)	2,870
Tax valuation allowance	3,943	725	(2,331)	2,337