PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
July 31, 2009

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

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from __________ to __________

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer o Accelerated filer þ 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

As of July 29, 2009, there were 91,524,280 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2009	December 31, 2008
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 21,871	$ 20,108
Accounts receivable, net of allowance for doubtful accounts of $2,041 and $2,075	321,654	294,048
Inventories	1,264,758	1,589,105
Other current assets	99,924	88,251
Assets held for sale	5,550	15,428
Total current assets	1,713,757	2,006,940
Property and equipment, net	710,853	662,121
Goodwill	817,794	777,783
Franchise value	203,679	196,358
Equity method investments	287,106	296,487
Other long-term assets	18,337	22,460
Total assets	$ 3,751,526	$ 3,962,149
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 777,803	$ 964,783
Floor plan notes payable non-trade	427,731	506,688
Accounts payable	215,643	178,282
Accrued expenses	203,307	195,994
Current portion of long-term debt	12,623	11,305
Liabilities held for sale	8,213	23,060
Total current liabilities	1,645,320	1,880,112
Long-term debt	949,043	1,052,060
Other long-term liabilities	259,167	221,556
Total liabilities	2,853,530	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; 91,527 shares issued and outstanding at June 30, 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	734,109	731,037
Retained earnings	150,106	119,745
Accumulated other comprehensive income (loss)	10,210	(45,990)
Total Penske Automotive Group stockholders equity	894,434	804,801
Non-controlling interest	3,562	3,620
Total equity	897,996	808,421
Total liabilities and equity	$ 3,751,526	$ 3,962,149

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited) (In thousands, except per share amounts)			
Revenue:				
New vehicle	$ 1,091,374	$ 1,726,632	$ 2,062,462	$ 3,350,762
Used vehicle	657,464	806,864	1,271,334	1,597,706
Finance and insurance, net	54,572	75,262	102,903	148,979
Service and parts	332,108	359,389	659,143	717,715
Distribution	53,152	98,421	133,265	162,191
Fleet and wholesale vehicle	130,747	264,486	245,649	522,379
Total revenues	2,319,417	3,331,054	4,474,756	6,499,732
Cost of sales:				
New vehicle	1,005,265	1,582,160	1,905,050	3,069,868
Used vehicle	598,154	746,588	1,156,115	1,471,903
Service and parts	149,143	157,749	299,392	315,332
Distribution	45,702	82,605	114,016	136,222
Fleet and wholesale	126,823	265,790	238,134	522,843
Total cost of sales	1,925,087	2,834,892	3,712,707	5,516,168
Gross profit	394,330	496,162	762,049	983,564
Selling, general and administrative expenses	328,035	393,042	640,554	786,268
Depreciation and amortization	13,789	13,396	26,643	26,657
Operating income	52,506	89,724	94,852	170,639
Floor plan interest expense	(9,009)	(16,247)	(18,491)	(33,200)
Other interest expense	(13,663)	(12,423)	(28,142)	(24,292)
Debt discount amortization	(3,135)	(3,496)	(6,773)	(6,992)
Equity in earnings of affiliates	3,466	3,011	4,180	4,403
Gain on debt repurchase			10,429	
Income from continuing operations before income taxes	30,165	60,569	56,055	110,558
Income taxes	(10,316)	(21,122)	(20,026)	(38,905)
Income from continuing operations	19,849	39,447	36,029	71,653
Loss from discontinued operations, net of tax	(5,682)	(1,189)	(5,660)	(1,065)
Net income	14,167	38,258	30,369	70,588
Less: Income attributable to non-controlling interests	88	428	8	863

Net income attributable to Penske Automotive Group common stockholders	$	14,079	$	37,830	$	30,361	$	69,725
Basic earnings per share attributable to Penske Automotive Group common stockholders:								
Continuing operations	$	0.22	$	0.41	$	0.39	$	0.74
Discontinued operations		(0.06)		(0.01)		(0.06)		(0.01)
Net income	$	0.15	$	0.40	$	0.33	$	0.73
Shares used in determining basic earnings per share		91,531		95,385		91,506		95,261
Diluted earnings per share attributable to Penske Automotive Group common stockholders:								
Continuing operations	$	0.22	$	0.41	$	0.39	$	0.74
Discontinued operations		(0.06)		(0.01)		(0.06)		(0.01)
Net income	$	0.15	$	0.40	$	0.33	$	0.73
Shares used in determining diluted earnings per share		91,592		95,499		91,537		95,377
Amounts attributable to Penske Automotive Group common stockholders:								
Income from continuing operations	$	19,849	$	39,447	$	36,029	$	71,653
Less: Income attributable to non-controlling interests		88		428		8		863
Income from continuing operations, net of tax		19,761		39,019		36,021		70,790
Loss from discontinued operations, net of tax		(5,682)		(1,189)		(5,660)		(1,065)
Net income	$	14,079	$	37,830	$	30,361	$	69,725
Cash dividends per share	$		$	0.09	$		$	0.18

See Notes to Consolidated Condensed Financial Statements

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 30,369	$ 70,588
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation and amortization	26,643	26,657
Debt discount amortization	6,773	6,992
Undistributed earnings of equity method investments	(4,180)	(4,403)
Loss from discontinued operations, net of tax	5,660	1,065
Deferred income taxes	21,037	4,360
Gain on debt repurchase	(10,733)	
Changes in operating assets and liabilities:		
Accounts receivable	(27,045)	20,808
Inventories	341,768	(59,569)
Floor plan notes payable	(187,020)	120,230
Accounts payable and accrued expenses	32,562	11,374
Other	7,943	(14,272)
Net cash from continuing operating activities	243,777	183,830
Investing Activities:		
Purchase of equipment and improvements	(44,438)	(115,746)
Proceeds from sale-leaseback transactions		19,740
Dealership acquisitions net, including repayment of sellers floor plan notes payable of $5,784 and $0, respectively	(11,476)	(68,651)
Purchase of Penske Truck Leasing Co., L.P. partnership interest		(219,000)
Other	12,679	(1,500)
Net cash from continuing investing activities	(43,235)	(385,157)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	276,800	301,500
Repayments under U.S. credit agreement revolving credit line	(276,800)	(301,500)
Proceeds from U.S. credit agreement term loan		219,000
Repayments under U.S. credit agreement term loan	(10,000)	
Repurchase 3.5% senior subordinated convertible notes	(51,425)	
Net (repayments) borrowings of other long-term debt	(47,768)	454
Net repayments of floor plan notes payable non-trade	(78,957)	(24,775)
Proceeds from exercises of options, including excess tax benefit		820
Dividends		(17,134)
Net cash from continuing financing activities	(188,150)	178,365

Discontinued operations:		
Net cash from discontinued operating activities	(3,899)	(5,909)
Net cash from discontinued investing activities	6	60,099
Net cash from discontinued financing activities	(6,736)	(24,930)
Net cash from discontinued operations	(10,629)	29,260
Net change in cash and cash equivalents	1,763	6,298
Cash and cash equivalents, beginning of period	20,108	14,797
Cash and cash equivalents, end of period	$ 21,871	$ 21,095
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 49,368	$ 66,296
Income taxes	4,655	2,288
Seller financed debt		4,728

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders Equity Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity
	(Unaudited) (Dollars in thousands)							
Balance, January 1, 2009	91,430,781	$ 9	$ 731,037	$ 119,745	$ (45,990)	$ 804,801	$ 3,620	$ 808,421
Equity compensation	96,549		3,072			3,072		3,072
Distributions to non-controlling interests							(66)	(66)
Foreign currency translation					54,565	54,565		54,565
Other					1,635	1,635		1,635
Net income				30,361		30,361	8	30,369
Balance, June 30, 2009	91,527,330	$ 9	$ 734,109	$ 150,106	$ 10,210	$ 894,434	$ 3,562	$ 897,996

See Notes to Consolidated Condensed Financial Statements

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

1. Interim Financial Statements

Basis of Presentation

The following unaudited consolidated condensed financial statements of Penske Automotive Group, Inc. (the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in the Company s annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2009 and December 31, 2008 and for the three and six month periods ended June 30, 2009 and 2008 is unaudited, but includes all adjustments which the management of the Company believes to be necessary for the fair presentation of results for the periods presented. The Company evaluated subsequent events through July 31, 2009, the date the consolidated condensed financial statements were filed with the SEC. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through June 30, 2009 and the results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2008, which are included as part of the Company s Annual Report on Form 10-K.

Results for the six months ended June 30, 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.

In June 2008, the Company 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 (collectively, GE Capital) 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.

In June 2009, the Company announced that it entered into a non-binding memorandum of understanding (MOU) with General Motors regarding the potential acquisition of certain assets relating to the Saturn automotive brand. Pursuant to the MOU, the Company would obtain the rights to the Saturn brand, acquire certain assets including Saturn parts inventory, and have the right to distribute vehicles and parts through the Saturn dealership network. The Company does not intend to enter the manufacturing business nor does this transaction contemplate the Company purchasing any of the existing Saturn retailer network. If consummated, the Company anticipates offering existing Saturn retailers a new sales and service agreement. General Motors would continue to provide Saturn Aura, Vue and Outlook vehicles, on a contract basis, for an interim period. Any closing of the transaction is subject to satisfactory completion of due diligence, regulatory and other approvals.

Discontinued Operations

The Company accounts for dispositions as discontinued operations when it is evident that the operations and cash flows of the business 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 will be eliminated from ongoing operations in its retail segment, 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 the Company believes that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining franchises. The net assets of dealerships accounted for as discontinued operations as of June 30, 2009 were immaterial. Combined income statement information regarding dealerships accounted for as discontinued operations follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$ 15,810	$ 99,380	$ 33,968	$ 222,686
Pre-tax loss	(5,700)	(4,342)	(5,702)	(4,216)
Loss on disposal	(2,992)	(234)	(2,992)	(234)

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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 as of June 30, 2009, based on quoted, level one market data, follows:

	Carrying Value	Fair Value
7.75% senior subordinated notes due 2016	$ 375,000	$ 292,500
3.5% senior subordinated convertible notes due 2026	283,071	254,196

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.

Accounting Changes

Effective January 1, 2009, the Company adopted a general accounting principle relating to debt with cash conversion options which required the Company to account separately for the debt and equity components of its 3.5% senior subordinated convertible notes. The value ascribed to the debt component was determined using a fair value methodology, with the residual representing the equity component. The equity component was recorded as an increase in equity, with the debt discount being amortized as additional interest expense over the expected life of the instrument. The Company has applied the provisions of this accounting principle retrospectively to all periods presented herein in accordance with general accounting principles governing accounting changes. As a result of this accounting change, the Company s retained earnings as of January 1, 2008 decreased by $13,884 from $587,566 as originally reported to $573,682.

Effective January 1, 2009, the Company adopted a general accounting principle relating to earnings per share which required that unvested share-based payment awards with non-forfeitable rights to dividends or dividend equivalents be considered participating securities that must be included in the computation of EPS pursuant to the two-class method. The Company has applied the provisions of this accounting principle retrospectively to all periods presented herein in accordance with accounting principles governing accounting changes.

The following tables summarize the effect of the accounting changes described above on our consolidated condensed financial statements.

	2009		2008
	As calculated under previous	Effect of	As calculated under