

PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
April 30, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

22-3086739
(I.R.S. Employer

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

incorporation or organization)

Identification No.)

**2555 Telegraph Road,
Bloomfield Hills, Michigan**
(Address of principal executive offices)

48302-0954
(Zip Code)

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

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

Indicate by check mark whether the registrant 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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of April 21, 2013, there were 90,302,508 shares of voting common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Condensed Balance Sheets as of March 31, 2013 and December 31, 2012</u>	3
<u>Consolidated Condensed Statements of Income for the three months ended March 31, 2013 and 2012</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u>	6
<u>Consolidated Condensed Statement of Equity for the three months ended March 31, 2013</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative & Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	38
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 6. Exhibits</u>	39

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 31,627	\$ 43,753
Accounts receivable, net of allowance for doubtful accounts of \$2,437 and \$2,919	527,663	552,868
Inventories	2,023,529	1,991,167
Other current assets	89,488	90,854
Assets held for sale	108,468	94,441
Total current assets	2,780,775	2,773,083
Property and equipment, net	1,078,627	1,023,781
Goodwill	950,636	974,720
Franchise value	274,955	283,292
Equity method investments	311,251	303,160
Other long-term assets	18,738	20,954
Total assets	\$ 5,414,982	\$ 5,378,990
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 1,425,199	\$ 1,408,363
Floor plan notes payable non-trade	744,223	716,621
Accounts payable	287,744	263,349
Accrued expenses	226,080	223,574
Current portion of long-term debt	33,053	19,493
Liabilities held for sale	81,452	62,156
Total current liabilities	2,797,751	2,693,556
Long-term debt	858,676	918,024
Deferred tax liabilities	297,851	287,818
Other long-term liabilities	155,128	163,271
Total liabilities	4,109,406	4,062,669
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; 90,303 shares issued and outstanding at March 31, 2013; 90,295 shares issued and outstanding at December 31, 2012	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	689,523	700,013
Retained earnings	656,034	611,026
Accumulated other comprehensive income (loss)	(44,486)	(6,833)
Total Penske Automotive Group stockholders' equity	1,301,080	1,304,215
Non-controlling interest	4,496	12,106
Total equity	1,305,576	1,316,321
Total liabilities and equity	\$ 5,414,982	\$ 5,378,990

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
	(In thousands, except per share amounts)	
Revenue:		
New vehicle	\$ 1,742,833	\$ 1,543,991
Used vehicle	1,004,964	936,091
Finance and insurance, net	86,685	77,752
Service and parts	383,483	359,206
Other	181,902	239,350
Total revenues	3,399,867	3,156,390
Cost of sales:		
New vehicle	1,607,458	1,414,388
Used vehicle	926,493	860,032
Service and parts	159,615	151,654
Other	173,314	236,457
Total cost of sales	2,866,880	2,662,531
Gross profit	532,987	493,859
Selling, general and administrative expenses	413,312	386,705
Depreciation	14,449	12,950
Operating income	105,226	94,204
Floor plan interest expense	(10,211)	(9,493)
Other interest expense	(11,776)	(12,131)
Equity in earnings of affiliates	2,348	4,410
Income from continuing operations before income taxes	85,587	76,990
Income taxes	(28,381)	(26,908)
Income from continuing operations	57,206	50,082
Income (Loss) from discontinued operations, net of tax	813	(3,076)
Net income	58,019	47,006
Less: Income attributable to non-controlling interests	355	188
Net income attributable to Penske Automotive Group common stockholders	\$ 57,664	\$ 46,818
Basic earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	\$ 0.63	\$ 0.55
Discontinued operations	0.01	(0.03)
Net income attributable to Penske Automotive Group common stockholders	\$ 0.64	\$ 0.52
Shares used in determining basic earnings per share	90,421	90,306
Diluted earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	\$ 0.63	\$ 0.55
Discontinued operations	0.01	(0.03)
Net income attributable to Penske Automotive Group common stockholders	\$ 0.64	\$ 0.52
Shares used in determining diluted earnings per share	90,457	90,338
Amounts attributable to Penske Automotive Group common stockholders:		
Income from continuing operations	\$ 57,206	\$ 50,082
Less: Income attributable to non-controlling interests	355	188
Income from continuing operations, net of tax	56,851	49,894
Income (Loss) from discontinued operations, net of tax	813	(3,076)
Net income attributable to Penske Automotive Group common stockholders	\$ 57,664	\$ 46,818

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended March 31,		
	2013	(Unaudited)	2012
	(In thousands, except per share amounts)		
Net Income	\$	58,019	\$ 47,006
Other Comprehensive Income:			
Foreign currency translation adjustment		(36,653)	9,926
Unrealized gain (loss) on interest rate swaps:			
Unrealized gain(loss) arising during the period, net of tax benefit of \$35 and \$822, respectively		(54)	(1,257)
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of \$723, and \$669, respectively		1,105	1,023
Unrealized gain (loss) on interest rate swaps, net of tax		1,051	(234)
Other adjustments to Comprehensive Income, net		(1,517)	1,009
Other Comprehensive Income(Loss), Net of Taxes		(37,119)	10,701
Comprehensive Income		20,900	57,707
Less: Comprehensive income attributable to non-controlling interests		889	188
Comprehensive income attributable to Penske Automotive Group common stockholders	\$	20,011	\$ 57,519

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2013	2012
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	\$ 58,019	\$ 47,006
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	14,449	12,950
Earnings of equity method investments	(2,348)	(4,410)
(Income) loss from discontinued operations, net of tax	(813)	3,076
Deferred income taxes	11,630	4,880
Changes in operating assets and liabilities:		
Accounts receivable	6,885	(33,678)
Inventories	(53,091)	(101,396)
Floor plan notes payable	32,119	134,089
Accounts payable and accrued expenses	33,500	74,150
Other	2,725	(11,461)
Net cash from continuing operating activities	103,075	125,206
Investing Activities:		
Purchase of equipment and improvements	(68,398)	(26,173)
Dealership acquisitions net, including repayment of sellers' floor plan notes payable of \$0 and \$36,906, respectively	(27,180)	(108,106)
Other	5,744	
Net cash from continuing investing activities	(89,834)	(134,279)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	247,700	194,300
Repayments under U.S. credit agreement revolving credit line	(287,700)	(219,300)
Net borrowings (repayments) of car rental revolver	49,779	
Net borrowings (repayments) of other long-term debt	(49,368)	34,766
Net borrowings (repayments) of floor plan notes payable - non-trade	33,477	(367)
Repurchases of common stock	(12,680)	(8,522)
Dividends	(12,656)	(8,973)
Net cash from continuing financing activities	(31,448)	(8,096)
Discontinued operations:		
Net cash from discontinued operating activities	(2,766)	(2,774)
Net cash from discontinued investing activities	989	34,370
Net cash from discontinued financing activities	7,858	(10,491)
Net cash from discontinued operations	6,081	21,105
Net change in cash and cash equivalents	(12,126)	3,936
Cash and cash equivalents, beginning of period	43,753	27,201
Cash and cash equivalents, end of period	\$ 31,627	\$ 31,137
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$ 13,478	\$ 14,061
Income taxes	3,259	7,740

See Notes to Consolidated Condensed Financial Statements

Table of Contents**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 Income (Loss) (Unaudited)	Total Stockholders Equity Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity
(Dollars in thousands)								
Balance, January 1, 2013	90,294,765	\$ 9	\$ 700,013	\$ 611,026	\$ (6,833)	\$ 1,304,215	\$ 12,106	\$ 1,316,321
Equity compensation	417,743		2,190			2,190		2,190
Repurchase of common stock	(410,000)		(12,680)			(12,680)		(12,680)
Dividends				(12,656)		(12,656)		(12,656)
Distributions to non-controlling interests							(190)	(190)
Deconsolidation of subsidiary							(8,309)	(8,309)
Foreign currency translation					(37,187)	(37,187)	534	(36,653)
Interest rate swaps					1,051	1,051		1,051
Other					(1,517)	(1,517)		(1,517)
Net income				57,664		57,664	355	58,019
Balance, March 31, 2013	90,302,508	\$ 9	\$ 689,523	\$ 656,034	\$ (44,486)	\$ 1,301,080	\$ 4,496	\$ 1,305,576

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. Interim Financial Statements

Business Overview

Unless the context otherwise requires, the use of the terms PAG, we, us, and our in these Notes to the Consolidated Condensed Financial Statements refers to Penske Automotive Group, Inc. and its consolidated subsidiaries.

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of March 31, 2013, we operated 342 retail franchises, of which 174 franchises are located in the U.S. and 168 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K.

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 also hold a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (PTL), a leading provider of transportation services and supply chain management.

We are the Hertz rental car franchisee in the Memphis, Tennessee market. In March 2013, we also acquired the assets and franchise rights to become the operator of Hertz rental car locations in certain markets throughout Indiana. We now operate more than fifty on and off-airport Hertz rental car locations.

During the first quarter of 2013, we sold 50% of our holdings in our Italian automotive retail joint venture. As a result of this transaction, we deconsolidated the Italian joint venture and will account for our remaining 35% interest using the equity method.

Basis of Presentation

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

The following unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in our 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 March 31, 2013 and December 31, 2012 and for the three month periods ended March 31, 2013 and 2012 is unaudited, but includes all adjustments that are of a normal recurring nature, which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements, including the comparative periods presented, have been adjusted for entities that have been treated as discontinued operations through March 31, 2013 in accordance with generally accepted accounting principles. 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 our audited financial statements for the year ended December 31, 2012, which are included as part of our Annual Report on Form 10-K.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, we are required to present either on the face of the statement of income or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. We complied with the disclosure requirements of this ASU for the quarter ended March 31, 2013.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 resolves the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. This ASU is effective prospectively for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-05 to affect our consolidated financial position, results of operations, or cash flows.

Table of Contents***Discontinued Operations***

We account for dispositions in our 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 we will not have any significant continuing involvement in its operations.

In evaluating whether the cash flows of a dealership in our Retail reportable segment will be eliminated from ongoing operations, we consider whether it is likely that customers will migrate to similar franchises that we own in the same geographic market. Our consideration includes an evaluation of the brands sold at other dealerships we operate in the market and their proximity to the disposed dealership. When we dispose of franchises, we typically do not have continuing brand representation in that market. If the franchise being disposed of is located in a complex of PAG owned dealerships, we do not treat the disposition as a discontinued operation if we believe that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining or replacement franchises.

Combined financial information regarding entities accounted for as discontinued operations follows:

	Three Months Ended March 31,	
	2013	2012
Revenues	\$ 85,761	\$ 131,840
Pre-tax income (loss)	1,271	(954)
Loss on disposal		(182)

	March 31,	December 31,
	2013	2012
Inventories	\$ 61,918	\$ 53,688
Other assets	46,550	40,753
Total assets	\$ 108,468	\$ 94,441
Floor plan notes payable (including non-trade)	\$ 55,350	\$ 45,593
Other liabilities	26,102	16,563
Total liabilities	\$ 81,452	\$ 62,156

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.

Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Our financial instruments consist of cash and cash equivalents, debt, floor plan notes payable, and interest rate swaps used to hedge future cash flows. Other than our fixed rate debt, 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.

Table of Contents

Our fixed rate debt consists of amounts outstanding under our senior subordinated notes and mortgage facilities. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 2), and we estimate the fair value of our mortgage facilities using a present value technique based on our current market interest rates for similar types of financial instruments (Level 2). A summary of the carrying values and fair values of our 5.75% senior subordinated notes and our fixed rate mortgage facilities are as follows:

	March 31, 2013	
	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	\$ 550,000	\$ 573,375
Mortgage facilities	103,205	105,154

2. Inventories

Inventories consisted of the following:

	March 31, 2013	December 31, 2012
New vehicles	\$ 1,430,247	\$ 1,421,074
Used vehicles	511,938	484,760
Parts, accessories and other	81,344	85,333
Total inventories	\$ 2,023,529	\$ 1,991,167

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$8,339 and \$5,265 during the three months ended March 31, 2013 and 2012, respectively.

3. Business Combinations

We acquired one Hertz car rental franchise during the three months ended March 31, 2013 and thirteen automotive retail franchises during the three months ended March 31, 2012. Our 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 our consolidated condensed 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 three months ended March 31, 2013 and 2012 follows:

	2013	March 31, 2012
Accounts receivable	\$	\$ 16,976
Inventory	117	79,650
Other current assets	80	
Property and equipment	20,021	32,593
Indefinite-lived intangibles	6,962	54,992

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Current liabilities			(49,290)
Non-current liabilities			(26,815)
Total consideration		27,180	108,106
Seller financed/assumed debt			
Cash used in dealership acquisitions	\$	27,180	\$ 108,106

The following unaudited consolidated pro forma results of operations of PAG for the three months ended March 31, 2013 and 2012 give effect to acquisitions consummated during 2013 and 2012 as if they had occurred on January 1, 2012:

Table of Contents

	Three Months Ended March 31,	
	2013	2012
Revenues	\$ 3,403,722	\$ 3,236,892
Income from continuing operations	56,961	50,681
Net income	57,419	47,417
Income from continuing operations per diluted common share	\$ 0.63	\$ 0.56
Net income per diluted common share	\$ 0.63	\$ 0.52

4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the three months ended March 31, 2013:

	Goodwill	Franchise Value
Balance, January 1, 2013	\$ 974,720	\$ 283,292
Additions	6,962	
Deconsolidation of Italian investment	(7,231)	(2,908)
Foreign currency translation	(23,815)	(5,429)
Balance, March 31, 2013	\$ 950,636	\$ 274,955

Goodwill additions of \$6,962 were related to our Hertz rental car operations within our Other reportable segment. All other changes were within our Retail reportable segment. As of March 31, 2013, the goodwill balance within our Retail and Other reportable segments was \$939,735 and \$10,901, respectively.

5. Floor Plan Notes Payable Trade and Non-trade

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., substantially all of our floor plan arrangements are due on demand; however, we have not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make 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 we are generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been 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 Bank Rate, or the Euro Interbank Offer Rate. We classify 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 our consolidated condensed balance sheets and classify related cash flows as a financing activity on our consolidated condensed statements of cash flows.

Table of Contents**6. 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 any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 follows:

	Three Months Ended March 31,	
	2013	2012
Weighted average number of common shares outstanding	90,421	90,306
Effect of non-participatory equity compensation	36	32
Weighted average number of common shares outstanding, including effect of dilutive securities	90,457	90,338

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2013	December 31, 2012
U.S. credit agreement - revolving credit line	\$ 10,000	\$ 50,000
U.S. credit agreement - term loan	110,000	110,000
U.K. credit agreement - revolving credit line	3,040	48,741
U.K. credit agreement - term loan	34,205	38,993
U.K. credit agreement - overdraft line of credit		6,838
5.75% senior subordinated notes due 2022	550,000	550,000
Rental car revolver	72,950	23,171
Mortgage facilities	103,205	104,043
Other	8,329	5,731
Total long-term debt	891,729	937,517
Less: current portion	(33,053)	(19,493)
Net long-term debt	\$ 858,676	\$ 918,024

U.S. Credit Agreement

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to \$375,000 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 \$110,000, and for an additional \$10,000 of availability for letters of credit, through September 2015. The revolving loans bear interest at a defined LIBOR plus 2.25%, subject

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

to an incremental 1.25% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.25%, may be prepaid at any time, but then may not be re-borrowed.

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 March 31, 2013, we were 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 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 March 31, 2013, \$10,000 of revolver borrowings, \$110,000 of term loans and \$500 of letters of credit were outstanding under the U.S. Credit Agreement.

Table of Contents

U.K. Credit Agreement

Our subsidiaries in the U.K. (the U.K. subsidiaries) are party to a £100,000 revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10,000 demand overdraft line of credit with RBS (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of March 31, 2013, outstanding loans under the U.K. credit agreement amounted to £2,000 (\$3,040).

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 defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments (EBITAR) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. 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 any amounts owed. As of March 31, 2013, our 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 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.

In January 2012, our U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30,000 term loan which was used for working capital and an acquisition. The term loan is repayable in £1,500 quarterly installments through 2015 with a final payment of £7,500 due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries' ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of March 31, 2013, the amount outstanding under the U.K. term loan was £22,500 (\$34,205).

5.75% Senior Subordinated Notes

In August 2012, we issued \$550,000 in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the 5.75% Notes) in a private offering under Rule 144A and Regulation S of the Securities Act of 1933.

We used a portion of the net proceeds of the 5.75% Notes to redeem \$375,000 in aggregate principal amount of our 7.75% Senior Subordinated Notes due 2016, and to pay fees and expenses in connection with the offering. The remaining proceeds from the 5.75% Notes were used to repay amounts outstanding under our U.S. credit agreement and our U.S. floor plan borrowings.

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Interest on the 5.75% Notes is payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2013. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned domestic subsidiaries. The 5.75% Notes also contain customary negative covenants and events of default. As of March 31, 2013, we were in compliance with all negative covenants, and there were no events of default.

On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.75% Notes using the proceeds of specified equity offerings at any time prior to October 1, 2015 at a price specified in the indenture.

If we experience certain change of control events specified in the indenture, holders of the 5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

Rental Car Revolver

We are party to a credit agreement with Toyota Motor Credit Corporation that currently provides us with up to \$100,000 in revolving loans for the acquisition of rental vehicles. The revolving loans bear interest at three-month LIBOR plus 2.50%. This agreement provides the lender with a secured interest in the vehicles and our rental car operations other assets, requires us to make monthly curtailment payments and expires in October 2014. As of March 31, 2013 outstanding loans under the rental car revolver amounted to \$72,950.

Table of Contents

Mortgage Facilities

We are party to several mortgages which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain 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 properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of March 31, 2013, we owed \$103,205 of principal under our mortgage facilities.

8. Interest Rate Swaps

We periodically 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 December 2014 pursuant to which the LIBOR portion of \$300,000 of our floating rate floor plan debt is fixed at 2.135% and \$100,000 of our floating rate floor plan debt is fixed at a rate of 1.55%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements.

We used Level 2 inputs to estimate the fair value of the interest rate swap agreements. As of March 31, 2013 and December 31, 2012, the fair value of the swaps designated as hedging instruments was estimated to be a liability of \$12,598 and \$14,337, respectively. During 2013 and 2012, there was no hedge ineffectiveness recorded in our income statement. During the three months ended March 31, 2013, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 38 basis points.

9. Commitments and Contingent Liabilities

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. As of March 31, 2013, we were 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 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.

We have historically structured our operations so as to minimize ownership of real property. As a result, we lease or sublease substantially all of our facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at our election. 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 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. As of March 31, 2013, we were in compliance with all covenants under these leases.

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

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.

We hold a 9.0% ownership interest in PTL. Historically General Electric Capital Corporation (GECC) has provided PTL with a majority of its financing. Since April 2012, PTL has refinanced a significant amount of its GECC indebtedness. As part of that refinancing, we and the other PTL partners created a new company (Holdings), which, together with GECC, co-issued \$700,000 of 3.8% senior unsecured notes due 2019 to certain investors through an offering pursuant to Rule 144A of the Securities Act of 1933, as amended (the Holdings Bonds). A wholly-owned subsidiary of Holdings contributed \$700,000 derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the \$700,000 of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds. In addition, we have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay as co-obligor, and pay GECC an annual fee of approximately \$950 for acting as co-obligor. The maximum amount of our potential obligations to GECC under this agreement are 9.0% of the required principal repayment due in 2019 (which is expected to be \$63,100) and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any.

We have \$500 of letters of credit outstanding as of March 31, 2013, and have posted \$9,047 of surety bonds in the ordinary course of business.

Table of Contents**10. Equity*****Share Repurchase***

During the first quarter of 2013, we repurchased 410 shares of our outstanding common stock for \$12,680, or an average of \$30.93 per share, under a program approved by our Board of Directors.

11. Accumulated Other Comprehensive Income / (Loss)

The table below presents the changes in accumulated other comprehensive income / (loss) by component and the reclassifications out of accumulated other comprehensive income / (loss) during the three months ended March 31, 2013 attributable to Penske Automotive Group common stockholders.

	Interest Rate Swaps	Foreign Currency Translation	Other	Total
Balance at December 31, 2012	\$ (8,678)	\$ (1,194)	\$ 3,039	\$ (6,833)
Other comprehensive income before reclassifications	(54)	(36,303)	(1,517)	(37,874)
Amounts reclassified from accumulated other comprehensive income - net of tax	1,105	(884)		221
Net current-period other comprehensive income	1,051	(37,187)	(1,517)	(37,653)
Balance at March 31, 2013	\$ (7,627)	\$ (38,381)	\$ 1,522	\$ (44,486)

Within the amounts reclassified from accumulated other comprehensive income, the \$1,105 associated with interest rate swaps is included in floor plan interest expense, and the \$(884) associated with foreign currency translation is included in selling, general, and administrative expenses.

12. Segment Information

Our operations are organized by management into operating segments by line of business and geography. We have determined that we have two reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail, consisting of our automotive retail operations, and (ii) Other, consisting of our Hertz rental car business operating segment and our investments in non-automotive retail operations operating segment. The Retail reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships and the retail automotive joint ventures. The individual dealership operations included in the Retail reportable segment have been grouped into four geographic operating segments: Eastern, Central, and Western United States and International. The geographic operating segments have been aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

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).

Three Months Ended March 31

	Retail	Other	Intersegment Elimination	Total
Revenues				
2013	\$ 3,405,665	\$ 6,886	\$ (12,684)	\$ 3,399,867
2012	3,156,390			3,156,390
Segment income				
2013	84,424	1,273	(110)	85,587
2012	73,156	3,834		76,990

Table of Contents**13. Condensed Consolidating Financial Information**

The following tables include condensed consolidating financial information as of March 31, 2013 and December 31, 2012 and for the three month periods ended March 31, 2013 and 2012 for Penske Automotive Group, Inc. (as the issuer of the 5.75% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing foreign entities). Guarantor subsidiaries are directly or indirectly 100% owned by PAG, and the guarantees are full and unconditional, and jointly and several. 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
March 31, 2013

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 31,627	\$	\$	\$ 19,102	\$ 12,525
Accounts receivable, net	527,663	(352,395)	352,395	293,820	233,843
Inventories	2,023,529			1,206,377	817,152
Other current assets	89,488		3,375	41,500	44,613
Assets held for sale	108,468			66,477	41,991
Total current assets	2,780,775	(352,395)	355,770	1,627,276	1,150,124
Property and equipment, net	1,078,627		4,353	727,320	346,954
Intangible assets	1,225,591			763,430	462,161
Equity method investments	311,251		254,392		56,859
Other long-term assets	18,738	(1,459,958)	1,473,072	4,086	1,538
Total assets	\$ 5,414,982	\$ (1,812,353)	\$ 2,087,587	\$ 3,122,112	\$ 2,017,636
Floor plan notes payable	\$ 1,425,199	\$	\$	\$ 884,419	\$ 540,780
Floor plan notes payable non-trade	744,223		109,321	317,087	317,815
Accounts payable	287,744		2,564	124,555	160,625
Accrued expenses	226,080	(352,395)	126	127,936	450,413
Current portion of long-term debt	33,053			23,932	9,121
Liabilities held for sale	81,452			42,717	38,735
Total current liabilities	2,797,751	(352,395)	112,011	1,520,646	1,517,489
Long-term debt	858,676	(39,314)	670,000	156,321	71,669
Deferred tax liabilities	297,851			272,900	24,951
Other long-term liabilities	155,128			81,088	74,040
Total liabilities	4,109,406	(391,709)	782,011	2,030,955	1,688,149
Total equity	1,305,576	(1,420,644)	1,305,576	1,091,157	329,487
Total liabilities and equity	\$ 5,414,982	\$ (1,812,353)	\$ 2,087,587	\$ 3,122,112	\$ 2,017,636

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2012

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 43,753	\$	\$	\$ 36,783	\$ 6,970
Accounts receivable, net	552,868	(340,917)	340,917	372,638	180,230
Inventories	1,991,167			1,197,456	793,711
Other current assets	90,854		3,546	55,836	31,472
Assets held for sale	94,441			59,113	35,328
Total current assets	2,773,083	(340,917)	344,463	1,721,826	1,047,711
Property and equipment, net	1,023,781		4,474	654,248	365,059
Intangible assets	1,258,012			756,655	501,357
Equity method investments	303,160		252,816		50,344
Other long-term assets	20,954	(1,527,156)	1,540,447	5,025	2,638
Total assets	\$ 5,378,990	\$ (1,868,073)	\$ 2,142,200	\$ 3,137,754	\$ 1,967,109
Floor plan notes payable	\$ 1,408,363	\$	\$	\$ 917,390	\$ 490,973
Floor plan notes payable non-trade	716,621		112,085	334,122	270,414
Accounts payable	263,349		3,344	123,754	136,251
Accrued expenses	223,574	(340,917)	450	113,753	450,288
Current portion of long-term debt	19,493			9,745	9,748
Liabilities held for sale	62,156			33,163	28,993
Total current liabilities	2,693,556	(340,917)	115,879	1,531,927	1,386,667
Long-term debt	918,024	(38,692)	710,000	121,618	125,098
Deferred tax liabilities	287,818			260,445	27,373
Other long-term liabilities	163,271			84,108	79,163
Total liabilities	4,062,669	(379,609)	825,879	1,998,098	1,618,301
Total equity	1,316,321	(1,488,464)	1,316,321	1,139,656	348,808
Total liabilities and equity	\$ 5,378,990	\$ (1,868,073)	\$ 2,142,200	\$ 3,137,754	\$ 1,967,109

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2013

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,399,867	\$	\$	\$ 2,017,973	\$ 1,381,894
Cost of sales	2,866,880			1,685,065	1,181,815
Gross profit	532,987			332,908	200,079
Selling, general and administrative expenses	413,312		5,158	256,469	151,685
Depreciation	14,449		378	8,251	5,820
Operating income (loss)	105,226		(5,536)	68,188	42,574
Floor plan interest expense	(10,211)		(2,287)	(4,810)	(3,114)
Other interest expense	(11,776)		(6,716)	(1,067)	(3,993)
Equity in earnings of affiliates	2,348		1,912		436
Equity in earnings of subsidiaries		(97,859)	97,859		
Income (loss) from continuing operations before income taxes	85,587	(97,859)	85,232	62,311	35,903
Income taxes	(28,381)	32,586	(28,381)	(24,426)	(8,160)
Income (loss) from continuing operations	57,206	(65,273)	56,851	37,885	27,743
(Loss) income from discontinued operations, net of tax	813	(813)	813	601	212
Net income (loss)	58,019	(66,086)	57,664	38,486	27,955
Other comprehensive income (loss), net of tax	(37,119)	36,784	(37,119)	1,051	(37,835)
Comprehensive income	20,900	(29,302)	20,545	39,537	(9,880)
Less: Comprehensive income attributable to the non-controlling interests	889	(534)	534		889
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 20,011	\$ (28,768)	\$ 20,011	\$ 39,537	\$ (10,769)

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2012

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,156,390	\$	\$	\$ 1,806,894	\$ 1,349,496
Cost of sales	2,662,531			1,514,572	1,147,959
Gross profit	493,859			292,322	201,537
Selling, general and administrative expenses	386,705		4,595	234,721	147,389
Depreciation	12,950		362	6,958	5,630
Operating income (loss)	94,204		(4,957)	50,643	48,518
Floor plan interest expense	(9,493)		(2,198)	(3,723)	(3,572)
Other interest expense	(12,131)		(7,563)	(910)	(3,658)
Equity in earnings of affiliates	4,410		3,760		650
Equity in earnings of subsidiaries		(87,760)	87,760		
Income (loss) from continuing operations before income taxes	76,990	(87,760)	76,802	46,010	41,938
Income taxes	(26,908)	30,742	(26,908)	(20,635)	(10,107)
Income (loss) from continuing operations	50,082	(57,018)	49,894	25,375	31,831
(Loss) income from discontinued operations, net of tax	(3,076)	3,076	(3,076)	(1,741)	(1,335)
Net income (loss)	47,006	(53,942)	46,818	23,634	30,496
Other comprehensive income (loss), net of tax	10,701	(9,692)	10,701	(234)	9,926
Comprehensive income	57,707	(63,634)	57,519	23,400	40,422
Less: Comprehensive income attributable to non-controlling interests	188				188
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 57,519	\$ (63,634)	\$ 57,519	\$ 23,400	\$ 40,234

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2013

	Total Company	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash from continuing operating activities	\$ 103,075	\$ 68,356	\$ 28,962	\$ 5,757
Investing activities:				
Purchase of equipment and improvements	(68,398)	(257)	(58,038)	(10,103)
Dealership acquisitions, net	(27,180)		(27,180)	
Other	5,744			5,744
Net cash from continuing investing activities	(89,834)	(257)	(85,218)	(4,359)
Financing activities:				
Net borrowings (repayments) of long-term debt	(39,589)	(39,999)	52,192	(51,782)
Net borrowings (repayments) of floor plan notes payable non-trade	33,477	(2,764)	(17,034)	53,275
Repurchase of common stock	(12,680)	(12,680)		
Dividends	(12,656)	(12,656)		
Distributions from (to) parent			415	(415)
Net cash from continuing financing activities	(31,448)	(68,099)	35,573	1,078
Net cash from discontinued operations	6,081		3,002	3,079
Net change in cash and cash equivalents	(12,126)		(17,681)	5,555
Cash and cash equivalents, beginning of period	43,753		36,783	6,970
Cash and cash equivalents, end of period	\$ 31,627	\$	\$ 19,102	\$ 12,525

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2012

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	\$ 125,206	\$ 44,856	\$ 8,860	\$ 71,490
Investing activities:				
Purchase of equipment and improvements	(26,173)	(518)	(17,720)	(7,935)
Dealership acquisitions, net	(108,106)			(108,106)
Other				
Net cash from continuing investing activities	(134,279)	(518)	(17,720)	(116,041)
Financing activities:				
Net borrowings (repayments) of long-term debt	9,766	(25,000)	(963)	35,729
Net borrowings (repayments) of floor plan notes payable non-trade	(367)	(1,843)	(17,591)	19,067
Repurchase of common stock	(8,522)	(8,522)		
Dividends	(8,973)	(8,973)		
Distributions from (to) parent			636	(636)
Net cash from continuing financing activities	(8,096)	(44,338)	(17,918)	54,160
Net cash from discontinued operations	21,105		9,994	11,111
Net change in cash and cash equivalents	3,936		(16,784)	20,720
Cash and cash equivalents, beginning of period	27,201		27,201	
Cash and cash equivalents, end of period	\$ 31,137	\$	\$ 10,417	\$ 20,720

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Part II, Item 1A. Risk Factors and Forward Looking Statements. We have acquired and initiated a number of businesses during the periods presented and addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations. 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 also been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through March 31, 2013.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by the \$13.2 billion in total revenue we generated in 2012. As of March 31, 2013, we operated 342 retail automotive franchises, of which 174 franchises are located in the U.S. and 168 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. During the three months ended March 31, 2013, we retailed and wholesaled more than 103,000 vehicles. We are diversified geographically, with 63% of our total revenues during the three months ended March 31, 2013, generated in the U.S. and Puerto Rico and 37% generated outside the U.S. We offer approximately 40 vehicle brands with 96% of our total retail revenue during the three months ended March 31, 2013, generated from brands of non-U.S. based manufacturers, and 69% generated from premium brands, such as Audi, BMW, Mercedes-Benz 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 finance and insurance products, extended service and maintenance contracts and replacement and aftermarket automotive products.

We also hold a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (PTL), a leading provider of transportation services and supply chain management. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is one of the largest purchasers of commercial trucks in North America. Product lines include full-service truck leasing, truck rental and contract maintenance, logistics services such as dedicated contract carriage, distribution center management, transportation management and acting as lead logistics provider. 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 General Electric Capital Corporation (GECC). We account for our investment in PTL under the equity method, and we therefore record our share of PTL's earnings each quarter on our statements of income under the caption Equity in Earnings of Affiliates, which also includes the results of our other investments.

Outlook

The level of new automotive unit sales in our markets impacts our results. The new vehicle market and the amount of customer traffic visiting our dealerships have improved during the past few years, and there are market expectations for continued improvement. During the three months ended March 31, 2013, total U.S. industry new vehicle unit sales increased from 3,467,084 to 3,689,089, representing an increase of 6.4%. We believe the U.S. automotive market will continue to improve based upon industry forecasts from companies such as JD Power, coupled with demand in the marketplace, an aging vehicle population, a strong credit environment for consumers, and the planned introduction of new models by many different vehicle brands.

During the three months ended March 31, 2013, vehicle registrations in the U.K. improved from 563,556 to 605,198, representing an increase of 7.4%. Based on industry forecasts from entities such as the Society of Motor Manufacturers and Traders (www.smmmt.co.uk), we believe, despite domestic and international economic concerns, the U.K. market will continue to grow as a result of U.K. motorists responding positively to new products and the latest fuel-efficient technology. We also expect continued resiliency in premium brand sales in the U.K. in 2013. See Part II, Item 1A. Risk Factors and Forward-Looking Statements.

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 extended service and maintenance contracts, sales of insurance policies, commissions relating to the sale of finance and lease contracts to third parties and the sales of certain other products. Service and parts revenues include fees paid for repair, maintenance and collision services, and the sale of replacement parts and other aftermarket accessories.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, and service and parts transactions. 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 also impact the mix of our revenues, and therefore influence our gross profit margin.

Table of Contents

Aggregate gross profit increased \$39.1 million, or 7.9%, during the three months ended March 31, 2013 compared to the same period in prior year. The increase in gross profit is largely attributable to same-store increases in finance and insurance and service and parts gross profit. Our retail gross margin percentage decreased from 16.8% during the three months ended March 31, 2012 to 16.3% during the three months ended March 31, 2013, due primarily to gross margin decreases in our new and used vehicle sales.

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 expenses. As the majority of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, we believe our expenses can be adjusted over time to reflect economic trends.

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 based on the prime rate, defined London Interbank Offered Rate (LIBOR), the Bank of England Base Rate, the Finance House Base Rate, or the Euro Interbank Offered Rate. Our floor plan interest expense has increased during the three months ended March 31, 2013 as a result of an increase in the amounts outstanding under floor plan arrangements. Our other interest expense has decreased during the three months ended March 31, 2013 due to repayments of acquisition debt during 2012.

Equity in earnings of affiliates represents our share of the earnings from our investments in joint ventures and other non-consolidated investments, including PTL. Because PTL is engaged in different businesses than we are, its operating performance may vary significantly from ours.

The future success of our business is dependent upon, among other things, general economic and industry conditions, our ability to consummate and integrate acquisitions, the level of vehicle sales in the markets where we operate, 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 dealership facilities, and the return realized from our investments in various joint ventures and other non-consolidated investments. See Forward-Looking Statements.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

Vehicle, Parts and Service Sales

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is 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. Taxes collected from customers and remitted to the governmental authorities are recorded on a net basis (excluded from revenue). During the three months ended March 31, 2013 and 2012, we earned \$112.2 million and \$105.3 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$109.6 million and \$102.7 million, respectively, was recorded as a reduction of cost of sales.

Table of Contents

Finance and Insurance Sales

Subsequent to the sale of a vehicle to a customer, we sell 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 insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we received may be charged back based on the terms of the contracts. The revenue we record relating to these transactions is net of an estimate of the amount of chargebacks we will be required to pay. Our estimate is based upon our historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products. Aggregate reserves relating to chargeback activity were \$23.4 million and \$23.4 million as of March 31, 2013 and December 31, 2012, respectively.

Rental Car Revenue

Rental and rental related revenues are recognized over the period the revenue earning equipment is rented based on the terms of the rental contract. Taxes collected from customers and remitted to the governmental authorities are recorded on a net basis (excluded from revenue).

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 about 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. Our operations are organized by management into operating segments by line of business and geography. We have determined that we have two reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail, consisting of our automotive retail operations, and (ii) Other, consisting of our Hertz rental car business operating segment and our investments in non-automotive retail operations operating segment. We have determined that the dealerships in each of our operating segments within the Retail reportable segment are components that are aggregated into four geographical reporting units for the purpose of goodwill impairment testing, 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). The geographic reporting units are Eastern, Central, and Western United States and International. The goodwill included in our Other reportable segment relates to our Hertz rental car business operating segment.

We prepare a qualitative assessment of the carrying value of goodwill using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. During 2012, we concluded that it was not more likely than not that any of the reporting units' fair value were less than their carrying amount. If the additional impairment testing was necessary, we would have 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. In connection with this process, we also reconcile the estimated aggregate fair values of our reporting units to our market capitalization. We believe that this reconciliation process is consistent with a market participant perspective. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and our cost of capital.

Investments

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee's income each period. The net book value of our investments was \$311.3 million and \$303.2 million as of March 31, 2013 and December 31, 2012, 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, 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.

Table of Contents

Self-Insurance

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, auto physical damage insurance, property insurance, 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. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. 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 \$22.1 million and \$20.1 million as of March 31, 2013 and December 31, 2012, respectively. Changes in the reserve estimate during 2013 relate primarily to our general liability and workers compensation programs.

Income Taxes

Tax regulations may require items to be included in our tax returns at different times than the items are reflected in our financial statements. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are 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 returns in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax returns 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.

Classification in Continuing and Discontinued Operations

We classify the results of our operations in our consolidated financial statements based on generally accepted accounting principles relating to discontinued operations, which requires judgments, including whether a business will be divested, the period required to complete the divestiture, and the likelihood of changes to the divestiture plans. If we determine that a business should be either 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 Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, we are required to present either on the face of the statement of income or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. We complied with the disclosure requirements of this ASU for the quarter ended March 31, 2013.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 resolves the diversity in practice about whether Subtopic 810-10, Consolidation - Overall, or Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. This ASU is effective prospectively for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-05 to affect our consolidated financial position, results of operations, or cash flows.

Table of Contents**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, 2011, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2013 and in quarterly same store comparisons beginning with the quarter ended June 30, 2012.

*Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012***New Vehicle Data**

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
New retail unit sales	45,745	41,704	4,041	9.7%
Same-store new retail unit sales	44,203	41,353	2,850	6.9%
New retail sales revenue	\$ 1,742.8	\$ 1,544.0	198.8	12.9%
Same-store new retail sales revenue	\$ 1,687.0	\$ 1,532.3	154.7	10.1%
New retail sales revenue per unit	\$ 38,099	\$ 37,023	1,076	2.9%
Same-store new retail sales revenue per unit	\$ 38,165	\$ 37,054	1,111	3.0%
Gross profit new	\$ 135.4	\$ 129.6	5.8	4.5%
Same-store gross profit new	\$ 131.2	\$ 128.6	2.6	2.0%
Average gross profit per new vehicle retailed	\$ 2,959	\$ 3,108	(149)	(4.9)%
Same-store average gross profit per new vehicle retailed	\$ 2,967	\$ 3,111	(144)	(4.6)%
Gross margin % new	7.8%	8.4%	(60) bps	(7.1)%
Same-store gross margin % new	7.8%	8.4%	(60) bps	(7.1)%

Units

Retail unit sales of new vehicles increased 4,041 units, or 9.7%, from 2012 to 2013, including an 11.8% increase in the U.S. and a 5.3% increase internationally. The increase is due to a 2,850 unit, or 6.9%, increase in same-store retail unit sales during the period, coupled with a 1,191 unit increase from net dealership acquisitions. Same-store units increased 9.0% in the U.S. and 2.5% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. However, our 2013 international business was negatively affected in the quarter by two less selling days due to an early shut down of the U.K. registration system because of the Easter holiday falling in March 2013 versus April in 2012. The overall same-store increase was driven by an 8.4% increase in premium/luxury brands, a 6.4% increase in volume foreign brands and a 2.4% increase in domestic brands. Overall, we believe our premium, volume foreign, and domestic brands are being positively impacted by improved market conditions including increased credit availability, pent-up demand, and the introduction of new models.

Revenues

New vehicle retail sales revenue increased \$198.8 million, or 12.9%, from 2012 to 2013. The increase is due to a \$154.7 million, or 10.1%, increase in same-store revenues, coupled with a \$44.1 million increase from net dealership acquisitions. Same-store retail revenue increased 11.5% in the U.S. and 1.2% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. However, our 2013 international business was negatively affected in the quarter by two less selling days due to an early shut down of the U.K. registration system because of the Easter holiday falling in March 2013 versus April in 2012. The overall same-store revenue increase is due primarily to the 6.9% increase in retail unit sales, which increased revenue by \$108.8 million, coupled with a \$1,111, or 3.0%, increase in average selling prices per unit, which increased revenue by \$45.9 million.

Gross Profit

Retail gross profit from new vehicle sales increased \$5.8 million, or 4.5%, from 2012 to 2013. The increase is due to a \$2.6 million, or 2.0%, increase in same-store gross profit, coupled with a \$3.2 million increase from net dealership acquisitions. The same-store increase is due primarily to the 6.9% increase in retail unit sales, which increased gross profit by \$8.5 million, somewhat offset by a \$144, or 4.6%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by \$5.9 million.

Table of Contents**Used Vehicle Data**

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
Used retail unit sales	40,076	36,371	3,705	10.2%
Same-store used retail unit sales	38,492	36,109	2,383	6.6%
Used retail sales revenue	\$ 1,005.0	\$ 936.1	68.9	7.4%
Same-store used retail sales revenue	\$ 974.3	\$ 932.0	42.3	4.5%
Used retail sales revenue per unit	\$ 25,076	\$ 25,737	(661)	(2.6)%
Same-store used retail sales revenue per unit	\$ 25,310	\$ 25,810	(500)	(1.9)%
Gross profit used	\$ 78.5	\$ 76.1	2.4	3.2%
Same-store gross profit used	\$ 76.0	\$ 75.8	0.2	0.3%
Average gross profit per used vehicle retailed	\$ 1,958	\$ 2,091	(133)	(6.4)%
Same-store average gross profit per used vehicle retailed	\$ 1,973	\$ 2,100	(127)	(6.0)%
Gross margin % used	7.8%	8.1%	(30) bps	(3.7)%
Same-store gross margin % used	7.8%	8.1%	(30) bps	(3.7)%

Units

Retail unit sales of used vehicles increased 3,705 units, or 10.2%, from 2012 to 2013 including a 13.8% increase in the U.S. and a 3.7% increase internationally. The increase is due to a 2,383 unit, or 6.6%, increase in same-store retail unit sales, coupled with a 1,322 unit increase from net dealership acquisitions. Same-store units increased 10.2% in the U.S. and were flat internationally. Our 2013 international business was negatively affected in the quarter by two less selling days due to an early shut down of the U.K. registration system because of the Easter holiday falling in March 2013 versus April in 2012. In addition, historically our first quarter international retail used business has been positively affected by bulk purchases of 500 to 1,000 used vehicles from certain manufacturers in the prior year-end. No such purchases were available in December 2012. While we cannot specifically measure the effect of these transactions, we believe that the lack of such purchases in December 2012 had a negative impact on 2013 unit sales, revenues and gross margins as compared to the same period in 2012. The overall same-store increase was driven by a 3.1% increase in premium/luxury brands, an 11.6% increase in volume foreign brands, and an 11.7% increase in domestic brands. We believe that overall our same-store used vehicle sales are being positively impacted by improved market conditions including increased credit availability, pent-up demand, an increase in trade-in units due to an increase in new unit sales, and our focus on retailing trade-ins and minimizing wholesaled vehicles.

Revenues

Used vehicle retail sales revenue increased \$68.9 million, or 7.4%, from 2012 to 2013. The increase is due to a \$42.3 million, or 4.5%, increase in same-store revenues, coupled with a \$26.6 million increase from net dealership acquisitions. Same store retail revenue increased 10.2% in the U.S. and decreased 1.7% internationally. The overall same-store revenue increase is due to the 6.6% increase in same-store retail unit sales, which increased revenue by \$60.3 million, somewhat offset by a \$500, or 1.9%, decrease in comparative average selling prices per unit, which decreased revenue by \$18.0 million. Our 2013 international business was negatively affected in the quarter by two less selling days due to an early shut down of the U.K. registration system because of the Easter holiday falling in March 2013 versus April in 2012. In addition, historically our first quarter international retail used business has been positively affected by bulk purchases of 500 to 1,000 used vehicles from certain manufacturers in the prior year-end. No such purchases were available in December 2012. While we cannot specifically measure the effect of these transactions, we believe that the lack of such purchases in December 2012 had a negative impact on 2013 unit sales, revenues and gross margins as compared to the same period in 2012.

Gross Profit

Retail gross profit from used vehicle sales increased \$2.4 million, or 3.2%, from 2012 to 2013. The increase is due to a \$0.2 million, or 0.3%, increase in same-store gross profit, coupled with a \$2.2 million increase from net dealership acquisitions. The increase in same-store gross profit is due to the 6.6% increase in used retail unit sales, which increased gross profit by \$4.7 million, somewhat offset by a \$127, or 6.0%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by \$4.5 million.

Finance and Insurance Data

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
Finance and insurance revenue	\$ 86.7	\$ 77.8	\$ 8.9	11.5%
Same-store finance and insurance revenue	\$ 84.8	\$ 77.2	\$ 7.6	9.9%
Finance and insurance revenue per unit	\$ 1,010	\$ 996	\$ 14	1.4%
Same-store finance and insurance revenue per unit	\$ 1,026	\$ 997	\$ 29	2.9%

Finance and insurance revenue increased \$8.9 million, or 11.5%, from 2012 to 2013. The increase is due to a \$7.6 million, or 9.9%, increase in same-store revenues during the period, coupled with a \$1.3 million increase from net dealership acquisitions. The same-store revenue increase is due to a 6.8% increase in same-store retail unit sales, which increased revenue by \$5.4 million, coupled with a \$29, or 2.9%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$2.2 million. Finance and insurance revenue per unit was up 6.9% to \$970 per unit in the U.S. and down 6.5% to \$1,095 per unit internationally. We believe the increases in the U.S. are due to our efforts to increase finance and insurance revenue, which include adding resources to drive additional training, product penetration and targeting underperforming locations. We believe the decreases in international are due to increased use of subvented rate customer financing by captive lenders in the U.K., which results in lower finance commissions.

Table of Contents**Service and Parts Data**

Dollars in millions, except per unit amounts			2013 vs. 2012	
	2013	2012	Change	% Change
Service and parts revenue	\$ 383.5	\$ 359.2	24.3	6.8%
Same-store service and parts revenue	\$ 368.5	\$ 357.3	11.2	3.1%
Gross profit	\$ 223.9	\$ 207.6	16.3	7.9%
Same-store gross profit	\$ 216.1	\$ 206.5	9.6	4.6%
Gross margin	58.4%	57.8%	60 bps	1.0%
Same-store gross margin	58.6%	57.8%	80 bps	1.4%

Revenues

Service and parts revenue increased \$24.3 million, or 6.8%, from 2012 to 2013 including a 9.1% increase in the U.S. and a 1.4% increase internationally. The increase is due to an \$11.2 million, or 3.1%, increase in same-store revenues during the period, coupled with a \$13.1 million increase from net dealership acquisitions. The increase in same-store revenue is due to a \$5.8 million, or 2.3%, increase in customer pay revenue, a \$4.6 million, or 6.1%, increase in warranty revenue, a \$0.6 million, or 2.6%, increase in body shop revenue, and a \$0.2 million, or 3.1%, increase in vehicle preparation revenue. We believe that our parts and service business is being positively impacted by increasing units in operation due to increasing new vehicle sales in recent years.

Gross Profit

Service and parts gross profit increased \$16.3 million, or 7.9%, from 2012 to 2013 including a 10.5% increase in the U.S. and a 2.0% increase in the U.K. The increase is due to a \$9.6 million, or 4.6%, increase in same-store gross profit during the period, coupled with a \$6.7 million increase from net dealership acquisitions. The same-store gross profit increase is due to the \$11.2 million, or 3.1%, increase in same-store revenues, which increased gross profit by \$6.6 million, coupled with a 1.4% increase in gross margin, which increased gross profit by \$3.0 million. The same-store gross profit increase is composed of a \$3.4 million, or 8.9%, increase in warranty gross profit, a \$3.2 million, or 10.3%, increase in vehicle preparation gross profit, a \$2.3 million, or 1.9%, increase in customer pay gross profit, and a \$0.7 million, or 4.6%, increase in body shop gross profit.

Selling, General and Administrative Data

Dollars in millions			2013 vs. 2012	
	2013	2012	Change	% Change
Personnel expense	\$ 234.1	\$ 215.4	\$ 18.7	8.7%
Advertising expense	\$ 19.0	\$ 19.0	\$ 0.0	0.0%
Rent & related expense	\$ 63.3	\$ 60.9	\$ 2.4	3.9%
Other expense	\$ 96.9	\$ 91.4	\$ 5.5	6.0%
Total SG&A expenses	\$ 413.3	\$ 386.7	\$ 26.6	6.9%
Same-store SG&A expenses	\$ 395.2	\$ 383.3	\$ 11.9	3.1%

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Personnel expense as % of gross profit	43.9%	43.6%	30 bps	0.7%
Advertising expense as % of gross profit	3.6%	3.9%	(30) bps	(7.7)%
Rent & related expense as % of gross profit	11.9%	12.3%	(40) bps	(3.3)%
Other expense as % of gross profit	18.2%	18.5%	(30) bps	(1.6)%
Total SG&A expenses as % of gross profit	77.5%	78.3%	(80) bps	(1.0)%
Same-store SG&A expenses as % of gross profit	77.1%	78.0%	(90) bps	(1.2)%

Selling, general and administrative expenses (SG&A) increased \$26.6 million, or 6.9%, from \$386.7 million to \$413.3 million. The aggregate increase is due to an \$11.9 million, or 3.1%, increase in same-store SG&A, coupled with a \$14.7 million increase from net dealership acquisitions. SG&A as a percentage of gross profit was 77.5%, an improvement of 80 basis points compared to 78.3% in the prior year. The increase in same-store SG&A is due primarily to a net increase in variable personnel expenses, as a result of a 4.1% increase in same-store retail gross profit versus the prior year.

Table of Contents

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, increased \$0.7 million, or 7.6%, from \$9.5 million to \$10.2 million. This increase is due primarily to a \$0.6 million, or 5.9%, increase in same-store floor plan interest expense and a \$0.1 million increase from net dealership acquisitions. The same-store increase is due primarily to increased amounts outstanding under floor plan arrangements.

Other Interest Expense

Other interest expense decreased \$0.3 million, or 2.9%, from \$12.1 million to \$11.8 million. The decrease is due primarily to repayments of acquisition debt during 2012.

Equity in Earnings of Affiliates

Equity in earnings of affiliates decreased \$2.1 million or 47.7%, from \$4.4 million to \$2.3 million. The decrease was primarily attributable to a decrease in equity in earnings from our investment in PTL and decreases in earnings at our non-automotive retail joint ventures.

Income Taxes

Income taxes increased \$1.5, or 5.5%, from \$26.9 to \$28.4. The increase is due primarily to an increase in our pre-tax income versus the prior year.

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 purchase or construction of new facilities, debt service and repayments, dividends, and potentially 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, dividends and distributions from joint venture investments or the issuance of equity securities.

We have historically expanded our retail automotive operations through organic growth and the acquisition of retail automotive dealerships. We believe that cash flow from operations, dividends and distributions from our joint venture investments 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. In the event we pursue significant acquisitions, other expansion opportunities, significant repurchases of our outstanding securities; or refinance or repay existing debt, 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.

As of March 31, 2013, we had \$365.0 million and £108.0 million (\$164.2 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively.

Securities Repurchases

From time to time, our Board of Directors has authorized securities repurchase programs pursuant to which we may, as market conditions warrant, purchase our outstanding common stock or debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. We have historically funded any such repurchases using cash flow from operations, borrowings under our U.S. credit facility, and borrowings under our U.S. floor plan arrangements. 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 our consideration of any alternative uses of our capital, such as for strategic investments in our current businesses, in addition to any then-existing limits imposed by our finance agreements and securities trading policy.

During the three months ended March 31, 2013, we repurchased 410,000 shares of our outstanding common stock on the open market for a total of \$12.7 million, or an average of \$30.93 per share, under a program approved by our Board of Directors. We have \$85.6 million in authorization under the existing securities repurchase program.

Table of Contents

Dividends

We paid the following cash dividends on our common stock in 2012 and 2013:

Per Share Dividends

2012

First Quarter	\$	0.10
Second Quarter		0.11
Third Quarter		0.12
Fourth Quarter		0.13

2013

First Quarter	\$	0.14
---------------	----	------

Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition, and other factors.

Vehicle Financing

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders, including a majority through 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 repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make monthly interest payments on the amount financed. Outside of the U.S., 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 that have been financed or the stated maturity.

The floor plan agreements typically 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 LIBOR, Finance House Base Rate, or Euro Interbank Offered Rate. 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 also receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold.

U.S. Credit Agreement

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to \$375.0 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 \$110.0 million, and for an additional \$10.0 million of availability for letters of credit, through September 2015. The revolving loans bear interest at a defined LIBOR plus 2.25%, subject to an incremental 1.25% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.25%, may be prepaid at any time, but then may not be re-borrowed.

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 March 31, 2013, 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 considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments. See Part II, Item 1A. Risk Factors and Forward Looking Statements below.

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

Table of Contents

U.S. Credit Agreement. As of March 31, 2013, \$10.0 million of revolver borrowings, \$110.0 million of term loans and \$0.5 of letters of credit 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 a £100.0 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10.0 million demand overdraft line of credit with RBS (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of March 31, 2013, outstanding loans under the U.K. credit agreement amounted to £2.0 million (\$3.0 million).

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 defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments (EBITAR) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. 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 any amounts owed. As of March 31, 2013, 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 considered the current margin of compliance with the covenants and our expected future results of operations, acquisitions, capital expenditures and investments in the U.K. See Part II, Item 1A. Risk Factors and Forward Looking Statements below.

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.

In January 2012, our U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30.0 million term loan which was used for working capital and an acquisition. The term loan is repayable in £1.5 million quarterly installments through 2015 with a final payment of £7.5 million due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of March 31, 2013, the amount outstanding under the U.K. term loan was £22.5 million (\$34.2 million).

5.75% Senior Subordinated Notes

In August 2012, we issued \$550.0 million in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the 5.75% Notes) in a private offering under Rule 144A and Regulation S of the Securities Act of 1933.

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

We used a portion of the net proceeds of the 5.75% Notes to redeem \$375.0 million in aggregate principal amount of our 7.75% Senior Subordinated Notes due 2016, and to pay fees and expenses in connection with the offering. The remaining proceeds from the 5.75% Notes were used to repay amounts outstanding under our U.S. credit agreement and our U.S. floor plan borrowings.

Interest on the 5.75% Notes is payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2013. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned domestic subsidiaries. The 5.75% Notes also contain customary negative covenants and events of default. As of March 31, 2012, we were in compliance with all negative covenants, and there were no events of default.

On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.75% Notes using the proceeds of specified equity offerings at any time prior to October 1, 2015 at a price specified in the indenture.

If we experience certain change of control events specified in the indenture, holders of the 5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

Table of Contents

Rental Car Revolver

We are party to a credit agreement with Toyota Motor Credit Corporation that currently provides us with up to \$100.0 million in revolving loans for the acquisition of rental vehicles. The revolving loans bear interest at three-month LIBOR plus 2.50%. This agreement provides the lender with a secured interest in the vehicles and our rental car operations' other assets, requires us to make monthly curtailment payments and expires in October 2014. As of March 31, 2013 outstanding loans under the rental car revolver amounted to \$73.0 million.

Mortgage Facilities

We are party to several mortgages which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain 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 properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of March 31, 2013, we owed \$103.2 million of principal under our mortgage facilities.

Short-term Borrowings

We have three principal sources of short-term borrowings: the revolving portion of the U.S. credit agreement, the revolving portion of the U.K. credit agreement, and the floor plan agreements in place that we utilize to finance our vehicle inventories. Over time, we are able to access availability under the floor plan agreements to fund our cash needs, including payments made relating to our higher interest rate revolving credit agreements.

During the first quarter of 2013, outstanding revolving commitments varied between \$10.0 million and \$124.0 million under the U.S. credit agreement and between £0 and £43.0 million (\$65.4 million) under the U.K. credit agreement's revolving credit line (excluding the overdraft facility), and the amounts outstanding under our floor plan agreements varied based on the timing of the receipt and expenditure of cash in our operations, driven principally by the levels of our vehicle inventories.

Interest Rate Swaps

We periodically 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 December 2014 pursuant to which the LIBOR portion of \$300.0 million of our floating rate floor plan debt is fixed at 2.135% and \$100.0 million of our floating rate floor plan debt is fixed at 1.55%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements. During the three months ended March 31, 2013, the swaps increased the weighted average interest rate on our floor plan borrowing by 38 basis points.

PTL Dividends

We hold a 9.0% ownership interest in Penske Truck Leasing. During the three months ended March 31, 2013 and 2012, respectively, we received \$0 and \$10.8 million of pro rata cash distributions relating to this investment. We currently expect to continue to receive future distributions from PTL quarterly, subject to its financial 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 a majority of our facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at our election. 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 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. As of March 31, 2013, we were in compliance with all covenants under these leases, and we believe we will remain in compliance with such covenants for the next twelve months.

Sale/Leaseback Arrangements

We have in the past and may in the future 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.

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

Table of Contents

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 a 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. We believe we have made appropriate reserves relating to these locations.

We hold a 9.0% ownership interest in PTL. Historically General Electric Credit Corporation (GECC) has provided PTL with a majority of its financing. Since April 2012, PTL refinanced a significant amount of its GECC indebtedness. As part of that refinancing, we and the other PTL partners created a new company (Holdings), which, together with GECC, co-issued \$700.0 million of 3.8% senior unsecured notes due 2019 to certain investors through an offering pursuant to Rule 144A of the Securities Act of 1933, as amended (the Holdings Bonds). A wholly-owned subsidiary of Holdings contributed \$700.0 million derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the \$700.0 million of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds. In addition, we have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay as co-obligor, and pay GECC an annual fee of approximately \$0.95 million for acting as co-obligor. The maximum amount of our potential obligations to GECC under this agreement are 9.0% of the required principal repayment due in 2019 (which is expected to be \$63.1 million) and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any. Although we do not currently expect to make material payments to GECC under this agreement, this outcome cannot be predicted with certainty.

Cash Flows

Cash and cash equivalents decreased by \$12.1 million and increased by \$3.9 million during the three months ended March 31, 2013 and 2012, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was \$103.1 million and \$125.2 million during the three months ended March 31, 2013 and 2012, 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 generally accepted 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

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

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 prepare the following reconciliation to highlight our operating cash flows with all changes in vehicle floor plan being classified as an operating activity for informational purposes:

Dollars in millions	Three Months Ended March 31,	
	2013	2012
Net cash from continuing operating activities as reported	\$ 103.1	\$ 125.2
Floor plan notes payable non-trade as reported	33.5	(0.4)
Net cash from continuing operating activities including all floor plan notes payable	\$ 136.6	\$ 124.8

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was \$89.8 million and \$134.3 million during the three months ended March 31, 2013 and 2012, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures and net expenditures for acquisitions and other investments. Capital expenditures were \$68.4 million, including \$35.9 million of capital expenditures relating to vehicle purchases for our Hertz rental car business, and \$26.2 million during the three months ended March 31, 2013 and 2012, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities, the construction of new facilities, the acquisition of the

Table of Contents

property or buildings associated with existing leased facilities and vehicle purchases for our Hertz rental car business. We currently expect to finance our retail automotive segment capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities and our rental car revolver for Hertz capital expenditures. Cash used in acquisitions and other investments, net of cash acquired, was \$27.2 million and \$108.1 million during the three months ended March 31, 2013 and 2012, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$0 and \$36.9 million, respectively. Additionally, proceeds from other investing activities during the three months ended March 31, 2013 were \$5.7 million.

Cash Flows from Continuing Financing Activities

Cash used in continuing financing activities was \$31.4 million and \$8.1 million during the three months ended March 31, 2013 and 2012, respectively. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, issuance and repurchases of long-term debt, repurchases of common stock, net borrowings or repayments of floor plan notes payable non-trade, and dividends. We had net repayments of long-term debt of \$39.6 million during the three months ended March 31, 2013. We had net borrowings of long-term debt of \$9.8 million during the three months ended March 31, 2012. We had net borrowings of floor plan notes payable non-trade of \$33.5 million during the three months ended March 31, 2013 and net repayments of \$0.4 million during the three months ended March 31, 2012. We repurchased common stock for a total of \$12.7 million and \$8.5 million during the three months ended March 31, 2013 and 2012, respectively. We also paid cash dividends to our stockholders of \$12.7 million and \$9.0 million during the three months ended March 31, 2013 and 2012, respectively.

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.

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. Robert H. Kurnick, Jr., our President and a director, is also the President and a director of Penske Corporation. Yoshimi Namba, one of our directors and officers, is also an employee of Mitsui & Co.

We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates for services rendered in the ordinary course of business, or to reimburse payments made to third parties on each other's 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.

As discussed above, we are a 9.0% limited partner of PTL, a leading provider of transportation services 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 GECC. Among other things, the relevant agreements provide us with specified distribution and governance rights and restrict our ability to transfer our interests.

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

Table of Contents**Joint Venture Relationships**

We are party to a number of joint ventures pursuant to 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 March 31, 2013, our automotive retail joint venture relationships included:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	84.95%(A) (B)
Las Vegas, Nevada	Ferrari, Maserati	50.00%(C)
Frankfurt, Germany	Lexus, Toyota	50.00%(C)
Aachen, Germany	Audi, Lexus, Skoda, Toyota, Volkswagen, Citroën	50.00%(C)
Monza, Italy	BMW, Mini	35.00%(C) (D)

-
- (A) An entity controlled by one of our directors, Lucio A. Noto (the Investor), owns a 15.05% 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. This joint venture is consolidated in our financial statements.
- (B) Entity is consolidated in our financial statements.
- (C) Entity is accounted for using the equity method of accounting.
- (D) During the first quarter of 2013, we sold 50% of our interest in the Italian joint venture. As a result of this sale, we deconsolidated the Italian joint venture.

Cyclicality

Unit sales of motor vehicles, particularly new vehicles, have been cyclical historically, 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. 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 quarterly report on Form 10-Q 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, estimate, predict, potential, forecast, continu terms, or the use of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial and operating performance;
- future acquisitions and dispositions;
- future potential capital expenditures and securities repurchases;
- our ability to realize cost savings and synergies;

Table of Contents

- 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;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- results of self insurance plans;
- 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 Part II, Item 1A. Risk Factors and in our 2012 annual report on Form 10-K filed February 28, 2013. Important factors that could cause actual results to differ materially from our expectations include those mentioned in Risk Factors and the following:

- our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, consumer demand, consumer confidence, fuel prices, unemployment rates 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 and continuation of our franchise agreements in order to operate our business;
- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, including the adverse impact on the vehicle and parts supply chain due to natural disasters or other disruptions that interrupt the supply of vehicles and parts to us, may negatively impact our revenues and profitability;
- a restructuring of any significant automotive manufacturers or automotive suppliers;
- our dealership operations may be affected by severe weather or other periodic business interruptions;
- we have substantial risk of loss not covered by insurance;
- we may not be able to satisfy our capital requirements for acquisitions, dealership renovation projects, financing the purchase of our inventory, or refinancing of our debt when it becomes due;
- 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;
- higher interest rates may significantly increase our variable rate interest costs and, because many customers finance their vehicle purchases, decrease vehicle sales;
- non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;
- our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency valuations;
- import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;

- 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 which could impact distributions to us;

- we are dependent on continued availability of our information technology systems;

Table of Contents

- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;
- new or enhanced regulations relating to automobile dealerships including those that may be issued by the Consumer Finance Protection Bureau restricting automotive financing;
- changes in tax, financial or regulatory rules or requirements;
- we are subject to numerous legal and administrative proceedings which, if the outcomes are adverse to us, could have a material adverse effect on our business;
- 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; and
- some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests.

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 included 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 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 3. 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 March 31, 2013, a 100 basis point change in interest rates would result in an approximate \$1.2 million change to our annual other interest expense. Similarly, amounts outstanding under 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 Offered Rate. In 2011, we entered into forward-starting interest rate swap agreements beginning January 2012 and maturing December 2014 pursuant to which the LIBOR portion of \$300 million of our floating rate floor plan debt is fixed at a rate of 2.135% and \$100 million of our floating rate floor plan debt is fixed at a rate of 1.55%. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the year ended December 31, 2012, including consideration of the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate \$15.3 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, mortgages, and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

Foreign Currency Exchange Rates. As of March 31, 2013, we had dealership operations in the U.K., Germany and Italy. In each of these markets, the local currency is the functional currency. 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

Table of Contents

rates versus the U.S. Dollar would have resulted in an approximate \$126.0 million change to our revenues for the three months ended March 31, 2013.

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

Item 4. Controls and Procedures

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

Based upon this evaluation, our 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 the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in litigation which may relate to claims brought by governmental authorities, customers, vendors, or employees, 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 us. 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.

Item 1A. Risk Factors

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition, or future results. The following updates the risk factors included in our 2012 Form 10-K:

Regulatory issues. We are subject to a wide variety of regulatory activities, including:

Governmental regulations, claims and legal proceedings. Governmental regulations affect almost every aspect of our business, including the fair treatment of our employees, wage and hour issues, and our financing activities with customers. 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 which may be asserted against us or any of our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act established a new consumer financial protection agency (the CFPB) with broad regulatory powers. Although automotive dealers are generally excluded from the CFPB's regulatory authority, the CFPB has announced its intention to regulate automotive financing through its regulation of automotive finance companies and other financial institutions. We cannot predict at this time the outcome of any regulatory initiative by the CFPB. In the event of regulation restricting our ability to generate revenue from arranging financing for our customers, we could be adversely affected.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In February 2010, our Board of Directors authorized the repurchase of up to \$150.0 million of our outstanding common stock, debt or convertible debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. The program has an indefinite duration. During the first quarter of 2013, we repurchased 410,000 shares of common stock under this program for a total of \$12.7 million. As of March 31, 2013, our remaining authorization under the program was \$85.6 million.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program
January 1 to January 31, 2013		\$		\$ 98,257,266
February 1 to February 29, 2013		\$		\$ 98,257,266
March 1 to March 31, 2013	410,000	\$ 30.93	410,000	\$ 85,575,966
	410,000	\$ 30.93	410,000	

Item 6. Exhibits

12	Computation of Ratio of Earnings to Fixed Charges
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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Table of Contents

SIGNATURES

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

PENSKE AUTOMOTIVE GROUP, INC.

By: */s/ Roger S. Penske*
Roger S. Penske
Chief Executive Officer

Date: April 30, 2013

By: */s/ David K. Jones*
David K. Jones
Chief Financial Officer

Date: April 30, 2013

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
12	Computation of Ratio of Earnings to Fixed Charges
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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.